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NATIONAL REPORT
ON STRUCTURAL REFORMS
ON THE PRODUCTS AND SERVICES MARKET
AND ON CAPITAL MARKET

POLAND

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CONTEST

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INTRODUCTION

As of May 1, 2004, Poland will be subject to all EU economic policy co-ordination procedures. The Broad Economic Policy Guidelines (BEPG) constitute the principal document defining the current directions of that policy. The current BEPG concerns the 2003-2006 period and contains practical recommendations for Member States concerning the implementation of the Lisbon Strategy. The BEPG is supplemented by “economic co-ordination processes”, the Cardiff process, which refers to structural reforms of the goods and services market, as well as the capital market being of particular importance. The European Commission (EC) monitors on an annual basis the implementation of the BEPG by the Member States. This purpose is served *inter alia* by the Cardiff reports.

Poland, as well as the other acceding countries, has been involved in the process of economic policy co-ordination through the annual presentation to the EC of its Pre-accession Economic Programme (PEP) and the fiscal notification. The first PEP was submitted by Poland to the EU in October 2001. In accordance with the concept of the PEP as a document presenting trends in the government’s economic policy, a change in economic priorities involves the need to prepare a new document. The PEP 2002 was therefore developed as a new programme between April and August 2002 and provided for the implementation of the Government’s Economic Strategy. PEP 2003 is an update of the PEP presented by Poland to the EU in August 2002. It was submitted in August 2003.

Poland as well as the other Member States of the enlarged European Union (EU) will be obliged to present an annual report on structural reforms of the product and capital markets. The EC has asked 10 acceding countries to submit the first report, on a voluntary basis, already this year. This edition of the report is thus the first that Poland has prepared in such a form.

The Cardiff Report – Poland presents the changes that have taken place on the products and services and capital markets, and an assessment of their performance. At the same time, it provides a synthetic description of the Government’s activities in the economic and social sphere up to 2006, as contained in the government’s principal economic programmes and modified assumptions for the 2004 budget bill, adopted by the Council of Ministers in July 2003. The programme aims, as presented in the report, to reflect Poland’s economic and political situation in mid-2003, as well as to present a projection of that situation for 2003-2006.

POLAND'S COMPETITIVENESS POSITION

During the processes of adjustment to the EU, lasting in Poland for over 10 years, significant economic reforms have been accomplished. The reforms aimed at effective inclusion of the Polish economy into the Single Market mechanisms: free movement of goods, services, persons and capital, social and ecology requirements. Although the evaluation of Poland's adjustment achievements is generally very high, the Polish economy still struggles with a large share of non-competitive and low productivity branches, which engulf the country's resources. It is indispensable to continue with structural reforms, complete the assumed level of privatisation and liquidate the barriers of entrepreneurship growth.

Poland pursues to find as quickly as possible its place in the development phase based on knowledge, investment and innovation, in order to build an economy capable to compete in the European Single Market. To achieve this goal, the Polish Government adopted on July 1, 2003 the "Action Plan for Growth 2003-2004: Entrepreneurship-Development-Employment II", which includes proposed action to facilitate the conducting of economic activity in Poland and give an impetus to development. The Action Plan complies, to a large extent, with the priorities of the Lisbon Strategy, which main goal is to transform the EU economy by 2010 into the world's most competitive economy. Taking up development initiatives constitutes an element of Poland's active approach both to the challenges related to achieving the strategic Lisbon goal, and taking full advantage of the EU membership.

The level of Poland's economy competitiveness is reflected in the following indexes:

- **Gross Domestic Product** per capita in 2001 amounted to 11,5 thousands EUR¹ (in terms of purchase power parity) and constituted merely about 40% of the EU average.
- **Labour Market:** the structure of employment in Poland shows major differences compared to the corresponding EU structures. In Poland the employment rate in agriculture, forestry and fishery amounted to 19.4% in 2002, in industry and construction – 28.6% and services – 52%. In the EU the respective indexes amounted to 4%, 25% and 71%.
- **Exports per capita:** in Poland in 2002 – 1,150 EUR while in the EU 6,818 EUR on average. In Poland the exports to GDP ratio amounts to 22.6%, less than in EU countries - 28% and other acceding countries (in Czech Republic 55.3% and in Hungary over 65%).
- **The share of processed goods in exports:** in Poland – about 85%, in Czech Republic – 92%, in Germany – 94%. The share of these goods in exports systematically increases, especially as far as electro engineering industry is concerned (about 39%).
- **The structure of enterprises:** in Poland microenterprises are predominant (95% of all SME's), what brings on the low capability of introducing new production and management technologies.
- **The innovation level of Polish enterprises.** The innovation level of the Polish economy is low. As a consequence, Polish industry has one of the lowest modernity indexes in Europe and most of the innovative SME's, starting their economic operation in recent years, have not been involved in advanced technology production or modern services.

¹ According to "Small statistical yearbook of the Republic of Poland 2003", preliminary data.

- **Number of patent notifications.** The invention index, which reflects the number of patent notifications per 10 000 inhabitants, is commonly considered as a vital index of innovation trends. In Poland the level of the invention index was systematically declining from 1.4 in 1989 to 0.6 in 2000.
- **Information technologies in enterprises.** The level of information technology endowment is determined by the size of a company. More than a half of microfirms and around 7% of small firms lack computers. The situation is better in medium-sized enterprises, in which there is no shortage of computer equipment. The similar situation can be observed as far as access to Internet is concerned.

PRODUCT AND SERVICE MARKET

INTRODUCTION

On January 29, 2002 the Government's Economic Strategy "Entrepreneurship–Development–Work" was approved, that set the economic policy's strategic objectives till 2006, such as:

- ❖ obtaining in 2003 a 3% rate of economic growth and creating the basis for a 5% GDP growth rate;
- ❖ occupational activation of the society and an increase in employment;
- ❖ reaching the state of full preparation for the effective utilisation of EU structural assistance from 2004 and, subsequently, absorption of EU funds and their utilisation for development.

An analysis performed a dozen or so months following the implementation of the Government's Economic Strategy "Entrepreneurship–Development–Work" has confirmed that the objectives contained therein are still valid, but the measures adopted for their attainment need to be updated. That is why the governmental Plan of growth-oriented actions for the years 2003-2004 has been developed, which is now the key document for the implementation, under structural reforms, of the main provisions of the Lisbon Strategy in Poland. This programme defines the leading directions of the state's economic policy till 2006, which are as follows:

- ❖ stimulating entrepreneurship,
- ❖ restructuring and privatisation of state-owned assets,
- ❖ promoting employment and reducing poverty,
- ❖ supporting innovativeness,
- ❖ developing infrastructure,
- ❖ increasing regional and local opportunities,
- ❖ completing preparations for the effective utilisation of EU Structural Funds.

The correct implementation of the provisions of the Lisbon Strategy forms one of the key elements conditioning the smooth flow of the accession procedure in the social and economic dimension. Taking into account the specificity of the Polish economy, in particular the obvious difficulties in stabilising and enhancing sustainable development, development of entrepreneurship and growth in employment, combined with the modernisation of the social model, play the leading role among the strategy's five main segments. Having this in mind, it should be noted that the continued structural reforms consistently aim at liberalising trade, ensuring broad freedom in commencing and conducting business activities based on free competition that guarantee the development of common access to services. The promotion of entrepreneurship development primarily consists in harmonising legal regulations, simplifying administrative procedures and eliminating restrictions concerning the start-up and conduct of business operations, as well as facilitating entrepreneurs' access to external financing sources.

IMPLEMENTATION OF INSTRUMENTS ON PRODUCT MARKETS – CHANGES IN TAX RATES, VAT SYSTEM, CORPORATE TAXATION

Prices

In accordance with the Law of July 5, 2001 on prices (Journal of Laws No. 97, item 1050, as amended), contractual prices and, in certain cases, official prices are applied. The Law also introduced rules for setting and applying official prices with respect to pharmaceuticals and medical materials contained in the list issued on the basis of the Minister of Health's by-law of March 26, 2002 concerning official prices on pharmaceuticals and medical materials in the retail and wholesale turnover (Journal of Laws No. 29, item 270, as amended).²

In accordance with the Law on prices, official prices may also be set within a municipality (*gmina*) by the municipal council for collective transport services and taxi transportation.

Certain prices (e.g. electricity, gas fuels and heat) are subject to regulations under the Law of April 10, 1997 on Energy Law (Journal of Laws of 2003 No. 153, item 1504).

Taxes

Income tax

In accordance with the Law of February 15, 1992 on corporate tax (Journal of Laws of 2000, No. 54, item. 654, as amended), in 2002 legal entities were charged with tax at the rate of 28%, and in 2003 the rate is 27%. The principal change that will come into effect as of 2004 is a reduction in the corporate income tax (CIT) to 19%. The aim behind the introduction of a lower tax burden on legal entities is to improve the competitiveness of Polish enterprises. Lower tax rates will also constitute a major incentive for the location of direct foreign investment in Poland. The high rate of fiscal charges on entrepreneurs has an adverse effect on the process of economic growth and job creation. The reduction in tax rates for enterprises charged with CIT increases the income remaining at the disposal of those taxpayers. These financial resources, allocated to development, will create favourable conditions for investment growth and reducing unemployment.

Payers of the personal income tax (PIT) running economic activity may choose the form of taxation and pay their income tax:

- upon general terms, under the provisions of the Law of July 26, 1991 on personal income tax (Journal of Laws of 2000. No. 14, item 176, as amended) at the 2002 (and 2003) rates of 19%, 30%, 40% depending on their income level;
- in the form of lump-sum income tax at the 2002 rates of 8.5%, 5.5%, 3.0% and, in 2003 – 20%, 17%, 8.5%, 5.5%, 3.0% depending on the type of business, and fulfilment *inter alia* the requirement of gaining a total revenue not exceeding a certain amount in a given calendar year, i.e. the amount of PLN 499,460 in 2002, and EUR 250,000 in 2003 and in the form of “tax card”, the application of which is possible *inter alia* with the employment level limited by legal regulations.

From 2004, natural persons engaged in business activities will be able to choose between taxation based on the currently applicable progressive rates and the linear rate of 19%. The latter, however, will disallow the use of tax reductions. This move is justified in the extent that a major group of small and medium-sized businesses submit PIT return forms, and this group has a considerable development potential, hence a job-creating potential.

² In accordance with the Law of July 5, 2001 on prices (article 5 paragraph 4).

A considerable part of the changes planned in the taxation system for 2004 aims at creating favourable conditions for rapid economic development. The principal beneficiaries of those changes will be enterprises, both small and medium-sized, submitting PIT return forms, and large enterprises paying taxes through the CIT form.

Tax reductions. Since October 26, 2002, a tax reduction has been introduced in the form of the so called “tax credit”³.

Depreciation. In 2002, depreciation covered fixed, intangible and legal assets with the projected period of use of more than one year, which opening value exceeded PLN 3,500. Depreciation charges were applied at the rates set out in the List of Depreciation Rates⁴.

Tax on goods and services

The Law of January 8, 1993 on the tax on goods and services and the excise duty (Journal of Laws No. 11, item 50 as amended) provided in 2002 for the following tax rates: a basic rate of 22% and reduced rates of 12%, 7%, 3% and 0%.

The 0% rate applies *inter alia* to the exports of goods and services, certain artificial fertilisers and pesticides, fodder, books, albums and atlases, and specialist journals, goods intended for fire-prevention (until the end of 2003).

The 3% rate applies to non-processed agricultural products, certain forestry products and folks craft products, computer hardware intended for schools and kindergartens (until the end of 2003).

The 7% rate applies *inter alia* to goods relating to health protection, certain food products within the food industry, goods for children (coats, clothing, underwear, children’s shoes), building materials and services, construction and assembly work and repair work relating to housing and accompanying infrastructure, housing facilities or parts thereof, except for business space.

The reduced rate of 12% applied to toys and certain goods for children (until December 31, 2002).

Tax exemption covered, among others, certain services relating to farming and forestry, some land transport services, scientific and research services, educational services, health protection and social welfare.

Since March 26, 2002, the following activities have been charged with the tax on goods and services: granting licenses on computer programmes in the meaning of the provisions of the copyright law, sale of rights or granting licences and sub-licenses and giving for utilisation of a collective trademark or a collective guarantee trademark in the meaning of the provisions of

³ Taxpayers who have started their business for the first time, may be exempted for one year from the obligation of submitting monthly tax return forms, paying income tax advances (or lump-sum tax) and paying tax, and in the case of natural persons – also from the obligation to combine, in their annual tax return forms, their income from business operations with income from other sources. The unpaid tax is to be repaid over the next 5 years.

⁴ The legal regulations have made it possible for taxpayers to increase depreciation rates and set them individually for investment in third-party fixed assets taken for use, with the observance of the minimum depreciation periods set out in the applicable regulations. Since September 5, 2002, the rule has been in force that during the first year in which brand-new fixed assets included in groups 3-6 of the Fixed Assets Classification, taxpayers may apply depreciation charges of 30% of their value. The possibility has also been introduced to apply depreciation charges not only on a monthly basis but quarterly as well or, as one-off operation, at the end of the fiscal year. This rule also applies in 2003.

the industrial property law. The Law also defines the rules for indicating the place to be regarded as the one for providing services related to the granting of a license.

Since October 1, 2002, a new category of taxpayers has been introduced, known as the small taxpayer, whose value of sales and exports of goods and services did not exceed the equivalent of EUR 800,000 in the preceding fiscal year. Those taxpayers may submit their monthly tax return forms and VAT accounts with the use of the non-accrual method.

The draft law on the tax on goods and services is already in the pipeline and is planned to come into force upon Poland's accession to the EU, i.e. as of May 1, 2004. The need to introduce the provisions of the aforementioned draft law results above all from the need to harmonise Polish law with the EU legislation and from the process of unifying tax rates following the commitments made during the accession negotiations.

Excise duty

In accordance with the Law of January 8, 1993 on the tax on goods and services and the excise duty (Journal of Laws No. 11, item 50 as amended), the following were charged with excise duty in 2002:

- oil products and synthetic liquid fuels (since March 26, 2002, taxation has been imposed on all goods intended for use as motor fuels or as additions or admixtures to such fuels),
- spirit and yeast products (with the exception of yeast), wine products, beer, other alcoholic beverages with alcohol content exceeding 1.2%, and alcoholic beverages being a mixture of beer and non-alcoholic drinks, where the alcohol content exceeds 0.5%,
- tobacco products,
- passenger cars,
- products such as shotguns, gas guns, sailing boats (until July 17, 2002), hi-fi electronic equipment, video cameras, salt, beautifying agents, perfume products, etc.,
- gas used for propelling motor cars and filling tourist gas cylinders of up to 5 kg,
- electricity (since March 26, 2002).

The excise rates are set in the amount or percentage based system (on the producer's sale price or the importer's customs value) or mixed (for cigarettes). The maximum rates are set out in the Law. Minister of Finance is authorised by the Law to set, by by-law, rates lower than the maximum ones.

As of March 10, 2002, the rules for assessing the excise duty on passenger cars were changed by reducing the rates on new cars and increasing the rates on second-hand imported ones (the rates were linked to the vehicle's age). Excise duty on spirit products manufactured domestically and imported was also reduced.

As of October 1, 2002, the excise duty on spirit products manufactured domestically and those imported was reduced from PLN 6,278/hl 100% of spirit to PLN 4,400/hl 100% of spirit.

Stamp duty and tax on acts under civil law

The rules for charging tax on acts under civil law are set out in the Law of September 9, 2000 on the tax on acts under civil law (Journal of Laws No. 86, item 959, as amended).

This tax is charged on acts under civil law the subject of which is non-professional trade in items and material rights, if these are not undertaken within the scope of business operations, as well as documents evidencing the performance of such acts. The entities obliged to pay stamp duty are natural persons, legal persons, and organisational units without legal personality, if such acts result in specific activities to be undertaken by authorities and offices.

Since January 1, 2003, stamp duties for the issuance of a permit for starting economic activity and for statements on defaults with the payment of tax liabilities have been reduced. As regards the tax on acts under civil law, exemption has been granted, under certain conditions, to loans given for the start-up or conduct of business operations. These changes aim at reducing entrepreneurs' operating costs.

Financial instruments for the support of export

Security and guarantee for pro-export projects – in accordance with the Law of May 8, 1997 on securities and guarantees provided by the State Treasury and certain legal persons (Journal of Laws of 2003 No. 174, item 1689) a security or guarantee from the State Treasury may be granted providing that the loan is used to fund investment projects to ensure, among others, the development of the export of goods and services.

Export insurance guaranteed by the State Treasury – the rules of export insurance are set out in the Law of July 7, 1994 on export insurance guaranteed by the State Treasury (Journal of Laws of 2001 No. 59, item 609 – uniform text). In accordance with its provisions, export insurance provided by the Export Credit Insurance Corporation (KUKI S.A.) can pertain to: export credits, export contracts, indirect investment abroad, as well as the costs of seeking foreign markets. They may be granted in the form of direct or indirect insurance and the provision of an insurance guarantee⁵.

Support to interest rates on export credits – on June 8, 2001, the law on support to fixed interest rates on export credits (Journal of Laws No. 73, item 762). Under the system, banks that give export credits directly, may obtain, through Bank Gospodarstwa Krajowego, support⁶ to interest rates on export credits to ensure stabilisation of the export credit interest rate at the level of the Commercial Interest Reference Rate (CIRR).

Government loans to finance exports of goods and services – this form of financing the exports of goods and services from the lender's country ("tie-in aid") pertains mainly to borrowing countries with a low level of income *per capita*. In Poland, such loans have been applied to a very limited extent so far⁷.

⁵ The Export Credit Insurance Corporation (KUKI S.A.) insures export credits guaranteed by the State Treasury under the limit of funds as set out in the State Budget Law. In 2002, that limit was PLN 6.5 billion and has been maintained in the same amount in 2003 as well. In 2002, the insurance protection of KUKI S.A. covered 2.43% of all Polish exports, and the statutory limit was utilised in 33.02%.

⁶ In 2002, the amount of PLN 20 million was allocated for the programme of support to interest on export credits; however, no agreement for support was signed during that period. The 2003 budget law provides for a special purpose reserve of PLN 8.0 million for the implementation of the programme of support to interest rates on export credits.

⁷ The 2002 State Budget Law set the limit of funds for that purpose at the level of PLN 1.08 billion. In the 2003 State Budget Law, this limit amounts to PLN 1.04 billion.

Facilitations in customs and fiscal procedures for exporters

As of May 1, 2002, a new structure of the customs administration began its operation. The decentralisation of customs administration consisting in the liquidation of the Main Customs Office and the appointment of directors of custom chambers as the supervising bodies of the customs offices reporting to them, is a very favourable solution to entities involved in foreign trade.

Concerning customs facilitations for entrepreneurs involved in foreign trade, reference should be made to the amendment of regulations concerning custom duty terms of payment. As of January 1, 2003 provisions extending the term of payments resulting from custom debt came into force⁸. The above regulation introduced provisions corresponding to those based on the Community Customs Code.

Custom duties

The structure of the Custom Tariff binding in 2002, as in the previous years, was based on the provisions of Article 13 of the Law of January 9, 1997 - the Custom Code (Journal of Laws of 2001 No. 75, item 802, as amended) on. As custom duty rates are concerned, the Tariff has maintained the hitherto general rules of charging and collection. The Tariff defined five types of custom duty rates: autonomous, conventional, preferential, lump sum and reduced rates.

Additional custom duty

Pursuant to the Law of June 28, 1995 on the rules, conditions and procedure of imposing additional customs duties on certain agricultural products imported from abroad (Journal of Laws No. 98, item 485, as amended), as every year, upon the motion of the Minister of Agriculture and Rural Development, a special measure, that is the additional customs duty, has been imposed to protect the Polish agricultural market.⁹

In 2003, the by-law of the Council of Ministers was amended (Journal of Laws of 2002 No. 53, item 460; the by-law was amended during 2003 – Journal of Laws of 2003, No. 93, item 861); the by-law exempted certain goods imported from the EU from additional customs duties and was put into force with the implementation of the agreement with the European Union of September 26, 2000 concerning the mutual liberalisation of trade in agricultural articles.

SUPPORT TO ENTREPRENEURSHIP-DEVELOPMENT

The elimination of barriers to entrepreneurship results not only from structural reforms themselves, but also intensified legislative work. The “Entrepreneurship in the First Place”

⁸ the Law of December 22, 2000 on the amendment to the Law on the Custom Code and the Law on the tax on goods and services and the excise duty (Article 1 sec.65)

⁹ In 2002, the additional custom duty was set pursuant to four by-laws (Journal of Laws of 2002: No. 38, item.355, No. 96, item 859, No. 122, item 1045 and No. 151, item 1255) and comprised: fowl of the *Gallus domesticus* species; fresh, cooled or frozen pork; poultry and edible offal; birds' eggs; cut flowers (roses, chrysanthemum); tomatoes (fresh or cooled); cucumbers and pickles (fresh or cooled); plain wheat grain; plain wheat, spelt and rye/wheat flour; rye flour; processed or preserved tomatoes (including tomato concentrate); flavoured or coloured sugar syrup; bran. In 2003, the additional custom duty was introduced under the price clause concerning the import of cucumbers (imported from the date the by-law came into force to October 31, 2003), tomatoes (imported from April 1 to October 31, 2003) and chicks provided, however, that the additional custom duty does not apply to chicks for breeding (Journal of Laws of 2003, No. 44, item 378).

package, under which a number of solutions and amendments in business law have been introduced, was a response to the need for a change in the law governing business operations.

Simplification of the legal and administrative environment for business

In June 2003, the Government adopted the report on “*Entrepreneurship in Poland*” which, in addition to the macroeconomic situation and characteristics of entrepreneurs, presented major problems relating to the functioning of enterprises. It also contained recommendations for further action necessary for enterprise development as the basic condition to accelerate economic development. These were reflected in the “*Growth-oriented Action Plan for 2003-2004 (Entrepreneurship–Development–Work II)*”.

The draft ***Law on the freedom of business operations***, adopted by the Council of Ministers in October 2003, aims at extending the scope of freedom through the introduction of considerable facilitations concerning the start-up, conduct and closure of business operations and simplifying and organising the related administrative procedures.

The solutions proposed in the draft Law will release entrepreneurs from major bureaucratic burdens connected so far with the preparation and submission of extensive documentation to the relevant authorities. The time necessary to complete the business start-up related formalities will also be significantly shortened.

The draft law introduces the definition of “micro-entrepreneur” and amends the definition of the small and medium-sized enterprise in accordance with the recommendation of the European Commission of May 6, 2003.

A new solution is the adoption of the principle of limited control of business operations. The draft Law changes the procedure in the case of many entrepreneurs applying for a limited number of permits, replacing the administrative hearing with the institution of competitive tender. The draft also provides for the replacement of most permits with entries to the register of regulated activities. Such entry is the only formal requirement necessary for undertaking and conducting specific types of business operations, with the elimination of the element of discretion in the course of the registration procedure as a result.

As postulated by business circles, the draft law introduces the ban on undertaking on more than one parallel inspection of an entrepreneur’s activities.

A major change intended to simplify the registration procedures that condition the start-up of business operations is the establishment of the Central Information Desk of Business Operations Register¹⁰.

Measures have been taken to improve the effectiveness of the enforcement of claims and debts. A reformed court procedure will be introduced concerning the security of claims and the enforcement and elimination of the causes for the protraction of writ and admonitory proceedings in commercial cases, the system of functioning of court enforcement authorities (bailiff officers) will be improved, a new system of court charges in civil cases will be introduced. These measures will result in a reduction in the costs of business operations, facilitation of asserting and enforcing claims between entrepreneurs in court and – therefore – elimination of a major part of payment bottlenecks.

¹⁰ Data on entrepreneurs will be gathered in a central system, and transmitted electronically. At the same time, this will enable the integration of all central IT systems where various registers of entrepreneurs are kept.

Work is also under way on simplifying, modernising and accelerating the procedure of entries in land and mortgage registers. A modern and efficient system of information about properties will be created, the system of land and mortgage registers will be computerised, the system of court charges will be simplified, and a new instrument of debt security on real estate (land debt) will be introduced into the legal system.

On February 28, 2003, the Polish Sejm passed the Law on *the bankruptcy and restructuring* (Journal of Laws No.60, item 535). The Law came into force on October 1, 2003 (with some of its provisions to come into force upon EU accession). The Law has replaced the provisions of two by-laws of the President of the Republic of Poland of 1934 regulating the problems of bankruptcy and composition proceedings, and also contains amended by-laws concerning the bankruptcy of credit institutions, banks and insurance companies, governed to date under separate by-laws.

The general principle of the Law on bankruptcy and restructuring is the adaptation of the law concerning the insolvency of entrepreneurs to the requirements of modern trade, taking into account international aspects and the hitherto omitted requirements of European legislation. The Law implements the provisions of Directive 2001/17/EC of the European Parliament and of the Council of March 19, 2001 on the reorganisation and winding up of insurance undertakings and Directive 2001/24/EC of the European Parliament and of the Council of April 4, 2001 on the reorganisation and winding up of credit institutions.

The Law introduces a uniform procedure with respect to all categories of insolvent entrepreneurs. The first stage of the procedure, i.e. the procedure concerning the notice of bankruptcy, is principally intended to examine whether there are grounds for the notice of bankruptcy. The second stage, i.e. bankruptcy proceedings proper, serves the purpose of liquidating the assets in bankruptcy and satisfying the creditors from the proceeds there from or entering into composition with the creditors. The by-laws adopted are to better serve the creditors rather than protect the insolvent debtor, and follow two basic principles: optimum use of the assets in bankruptcy to satisfy the creditors, and domination of the creditors' group interest.

It is assumed that presently the bankruptcy proceedings will be faster and more flexible – the law provides for the possibility of a fluent change of the method of conducting the proceedings, depending on the situation (e.g. moving from liquidation to composition proceedings or *vice versa*).

The law also provides for the possibility of instituting a remedial procedure by an entrepreneur entered in the National Court Register in the event of a risk of insolvency. The aim of the procedure is to restructure the entity and enter into composition with its creditors. The Parliament works on the amendments to the Law according to which all the entrepreneurs will be able to submit to a remedial procedure (The amendments are to be introduced on January 1, 2004).

The solutions in the labour law have reduced bureaucratic requirements (e.g. reduced the obligations concerning the introduction of remuneration and working rules, establishment of work safety services, appointment of a work safety committee).

Support to investment

In order to facilitate access for entrepreneurs to external financing sources, a governmental programme is being implemented for extending the system of loan and loan guarantee funds for small and medium-sized enterprises in 2002-2006, referred to as "*Capital for the*

Entrepreneurial”. Additional capital is provided to successive loan guarantee and loan funds each year.

The purpose of increasing access by small and medium-sized enterprises to investment capital is also to be served by the development of the concept of Regional Development Funds. These Funds will be a source of venture capital for restructuring or stimulating the development of existing enterprises and start-ups with high development potential.

New investment projects are to be stimulated by the amended Law on financial support to investment of March 20, 2002 (Journal of Laws, No. 41, item 363, as amended) The law aims to:

- harmonise the provisions of the law on financial support to investment with by-laws on public finance,
- adapt to the by-laws on state aid, amended last year, and EU solutions concerning domestic regional aid – as regulated in the *Guidelines for regional aid*. This concerns the definition of the criteria for calculating the value of a new investment project, the requirements to be fulfilled for the granting of financial support and a new regulation on labour costs.
- harmonise the definition of a new investment project and the by-laws concerning the requirements of the permissibility of, and supervision over, state aid to enterprises with Community legislation.

The amended law on financial support to investment projects extends the scope of its application to include investment in industrial and technological parks. Such extension of the circle of potential beneficiaries should favour local economic stimulation through the development of the above-mentioned forms of co-operation and enable the application of the law as a domestic instrument of support in the implementation of the Sectoral Operational Programme – Improvement of Competitiveness of the Economy for 2004-2006.

An increase in the openness of the Polish economy to the markets of EU Member States and the elimination of potential barriers in the free flow of goods should be supported by the establishment of the following systems that will start their operation upon accession:

- **System of notification of technical standards and regulations** that consists in submitting to the European Commission draft technical regulations at the stage of their adoption in the legislative process. This measure is to enable the European Commission and Member States to declare whether the draft regulation is not contrary to their legislation. The system's operation aims to eliminate potential technical barriers in the free flow of goods.
- **SOLVIT system** for informal solving (as different from court proceedings) of problems faced by entrepreneurs and citizens due to the incorrect application of Community law by the administrations of particular Member States. A Co-ordination Centre will be established at the Ministry of Economy, Labour and Social Policy, to reply to the questions and concerns of citizens and entrepreneurs or to submit them for clarification to the competent authorities.
- **System of providing the European Commission with information about physical barriers to free flow of goods** within the common market (e.g. demonstrations, blockades of roads or ports) and remedial measures applied by the state on the territory of which such a barrier has occurred. This responsibility is to be fulfilled under the provisions of Regulation 2679/98/EC on the functioning of the internal market in relation to the free movement of goods (known as the “Strawberry Regulation”).

Furthermore, legal solutions will be designed to enable the development of public and private partnerships to increase accessibility of capital for investment in large infrastructure projects.

Support to small and medium-sized enterprises

The most important governmental initiative integrating all measures taken to date and addressed to small and medium-sized enterprises is the programme ***“Directions of governmental activities with respect to small and medium-sized enterprises from 2003 to 2006”***, adopted by the Council of Ministers in February 2003.

The aim of measures supporting small and medium-sized enterprises is to stimulate their economic activity to ensure an increase in employment, enhance their competitiveness and ability to function on the Single European Market.

Entrepreneurs can obtain financial support for costs associated with consulting and training services relating to the improvement of the quality of products and services and to obtain quality, environmental and work safety certificates, for innovative projects, implementation of innovative solutions and new technologies, consulting services relating to business development and launching of activities based on internet technologies, purchase of new machinery and equipment (with the purchase of new computer hardware and software), means of transport, consulting services concerning the creation of consortia for joint application under public procurement procedures, consulting services related to the merging and takeover of enterprises to facilitate the consolidation of the SME sector and also to gaining capital for business activity (mainly by introducing shares to public trading), consulting services relating to the development and implementation of individual plans for the development of export and participation in fairs and exhibition events.

The principal objective of the programme, adopted by the Council of Ministers on July 22, 2003, “Programme for 2003 – 2006 – Creation of mechanisms and structures for the development of electronic commerce in Poland (Electronic Commerce Support Platform – e-commerce)” is to increase the competitiveness of small and medium-sized enterprises owing to the application of e-economy tools.

The core of the programme is the development and launching of a non-commercial platform B2B for the needs of the SME sector. The e-commerce platform will be used *inter alia* to provide access to information about enterprises, products and services, support commercial transactions using standard forms and providing specialist business information, training and consulting services concerning the use of the internet in the economy. Access to information about entrepreneurs, products and services will be provided in the form of electronic catalogues and databases based on the EAN-UCC world standards relating to the bar location codes.

The bank loan portfolio will be sanated and a security/guarantee fund will be established to secure loans to medium-sized and large enterprises, and to secure loans to projects co-funded from EU Structural Funds.

Assets available on the capital market, gathered in open pension funds, will become an important source of funding of commercial, particularly infrastructure projects. In August 2003, the law on the organisation and functioning of pension funds was amended¹¹. New categories of deposits for open pension funds were added such as revenue bonds, investment certificates issued by specialist closed investment funds, and convertible bonds. Owing to the

¹¹ Journal of Laws, No. 139, item 934 as amended

separation of the revenue bond category, funds gathered in the open pension funds (OFEs) can be used for investment in municipal infrastructure projects. The addition to the catalogue of specialist closed investment funds aims at extending the investment catalogue and will form an opportunity for the development of small and medium-sized enterprises.

Public procurement

A new Law on public procurement has been drafted to simplify and reduce the bureaucracy relating to the regulations, limit discretion in the proceedings to an absolute minimum, increase the transparency of procedures, facilitate the assertion of their rights by bidders in appeal proceedings, extend the catalogue of forms where a bid security can be placed, introduce solutions enabling the limiting of structural unemployment owing to the application of public procurement.

The objective of adopting the new law, which is to come into force at the latest on Poland's accession to the EU, is to fully harmonise Polish law with Community directives.

Small and medium-sized entrepreneurs will gain increased access to the public procurement market owing to the reduction of the formal obligations imposed on bidders competing for lower price contracts (below EUR 60,000)¹².

The purpose of modernisation is to be served by the possibility, broader than to date, of using electronic tools in the tender procedure. The new law on public procurement provides *inter alia* for the possibility of submitting bids and applications for admission to the procedure, conduct the procedure in the electronic form and the award of certain contracts through electronic auction.

The new law provides a comprehensive regulation of the award of contracts by entrepreneurs engaging in activities in the mining, energy, water management, transport and telecommunications sectors. The provisions concern the level of competitiveness of the markets on which such entities operate, as well as special institutions provided for under EU law: framework agreements, related entities, Community preferences, attestation and conciliation.

Electronic signature

As of August 16, 2002 the Law of September 18, 2001 on electronic signature came into force (Journal of Laws No. 130, item 1450, as amended), which together with the implementing by-laws thereto, provides the legal framework for the operation of the system of certification of the electronic signature. The legal solutions adopted are modelled on the provisions of the Directive 1999/93/EC of the European Parliament and of the Council of December 13, 1999 on a Community framework for electronic signatures. The provisions of the law make it possible to employ, in trade and legal transactions, the electronic signature, which is a modern tool, as equal in terms of its legal consequences as a hand-written signature.

The regulations adopted in the law also impose the obligation to create – within four years of the date its provisions come into force – the necessary legal framework and technical solutions making it possible to electronically file requests and applications and undertake other acts before public authorities.

¹² The regulations of public procurement law are not to be applied to contracts below value of 60,000 EUR.

DEVELOPMENT OF THE SERVICE SECTOR

Poland supports measures aimed at the fast and effective liberalisation and integration of markets within the European Union. The service sector is the principal driving force behind economic development in Poland. An analysis of the variables that characterise the rate and level of development of enterprises in the service sector points to the growing importance of such activities in the national economy. In 2000, it generated approx. 61.3% of added value and provided jobs to approx. 50.6% of employees throughout the economy. In 2001, approx. 74.1% of entrepreneurs entered in the REGON register were entities operating in the service sector. Aiming at dynamic economic development, newly established enterprises create new jobs and contribute to the development of innovativeness of the production process of products and services.

The solutions adopted in the *draft law on the freedom of business operations*, as referred to, facilitate the start-up and conduct of business activities. In the service sector, the obligation to obtain a permit has been maintained with respect to only certain specified cases, *inter alia* in banking, telecommunications, postal services and insurance activities. It should be noted at the same time that state aid in the service sector is granted to an insignificant extent, hence the Polish service sector correlates to the Community principle of exceptionality of granting state aid and did not require the application of any transition periods in that regard.

Poland's accession to the European Union will provide Polish entrepreneurs with access to the "developed" service sector. This sector, developing most dynamically over the past 20 years, relates to the appearance on the market of a new type of services classified as business-environment services. Constituting approx. 50% of the European economy, these services have a direct impact on its development and competitiveness. Also in Poland, the dynamic development of business-environment services is a response to globalisation and an increasing demand for specialist services. Most dynamically developing are industrial and corporation services – commercial and legal advisory services, accounting, technical consulting, research and development, and services concerning the development of broadly understood information technologies. In addition to the business-environment services, commerce plays a key role in the sector under consideration affecting, in the market economy system, the supply of, and demand for, goods, i.e. the producer and the consumer. Commerce is involved to a large extent both in generating the gross added value and increasing the employment level.

TOURISM

In Poland, tourism is among the major economic sectors. The Institute of Tourism estimates that revenues from tourism increased by PLN 6.8 billion – as compared with 2001– and reached PLN 40.3 billion in 2002. However, despite those positive trends, phenomena raising concerns were also noted. Those included a drop in foreign expenditure from PLN 20.1 billion in 2001 to PLN 17.6 billion in 2002.

Tourism, as a sector whose impact on both the domestic economy and the economies of particular regions is ever increasing, holds an important place in pursuing Poland's social and economic objectives such as:

- increasing the income of residents of regions requiring the profound restructuring of their economies through the use of the re-distributive role of tourism that consists in transferring income from richer regions (large agglomerations) to less affluent ones (threatened by structural unemployment and under-invested),

- reducing unemployment in border areas with major tourist attractions, affected by structural unemployment; increasing the number of jobs through the development of services in the tourist sector and increasing the occupational stimulation of the population,
- activating rural populations and improvement in the quality of life in rural areas, particularly areas with poor conditions for the development of agriculture and around protected areas where their priority protective function restricts economic functions,
- increasing the profitability of state assets subjected to the process of ownership transformations – mainly in the sector of spas, company-owned holiday centres, recreational facilities managed by municipalities, etc.,
- strengthening the role of cultural heritage, civilisation and natural environment in education, and in particular in youth education and upbringing,
- improving the image of Poland and its residents internationally, developing contacts with neighbouring countries and co-operation between border regions.

The main objective of the state's policy with respect to the tourist sector is improved competitiveness of the Polish tourist offer on both the domestic and international markets. This purpose is served by the pursuance of activities defined in the governmental document entitled ***“Strategy for tourism development in 2001-2006. Government's programme supporting tourism development in 2001-2006”*** adopted by the Council of Ministers in April 2001.

The tasks provided for under the “Strategy...” are pursued with the involvement of government authorities at the central and local levels, local government bodies, commercial self-government organisations, businesses operating in the tourist service sectors and non-government organisations. The attainment of these aims requires that those entities focus on activities aiming at:

- increasing the outlays on infrastructure projects and development of the tourist product,
- improving the quality of the tourist product and extension of the regional offer, increasing its attractiveness through emphasising the cultural and natural heritage, better access to foreign and domestic tourist markets, increased activity of the voivodship, poviát and municipal (*gmina*) government authorities,
- increasing the role of regional and local tourist organisations in shaping and promoting the tourist offer,
- increasing outlays on the promotion of tourism and intensifying joint promotional activities on foreign markets,
- increasing the participation in tourist trips made by economically weaker social and youth groups through support to the initiatives of local governments and non-government organisations.

The principal tools to implement this strategy include:

- general instruments – as defined in governmental as well as sectoral and structural programmes, which set the state's policy and financial means for its implementation, including resources for tasks relating to the development of tourism,

- EU pre-accession funds (SAPARD, ISPA, PHARE) that support activities in specific sectors of the economy (EUREKA, MICRO, Agroline 2000) and the Structural Funds to be used after Poland's accession to the European Union,
- means and tools at the disposal of particular ministers, used for the pursuance of tasks defined in the tourism development strategy.

SUPPORT TO INNOVATIVENESS

Like the European Union, Poland considers innovativeness to be one of the most important elements that will determine, during the coming years, the competitiveness of economies. At the same time, the competitiveness of the Polish economy is much lower than that of the economies of most EU Member States. This is due, above all, to low outlays on research and development (R&D), the weakness of the system of technology and knowledge transfer and the low inclination of manufacturing enterprises towards innovativeness.

In 2002, the financial outlays on innovative activities in industry (companies employing over 49 people) totalled PLN 13.9 billion and increased by 20.5% compared with 2001 (by 13% in the public and 22.3% in the private sectors). The outlays on R&D constituted 9.3% of the total figure – 3% on the purchase of ready-made technology in the form of documentation and rights, 1.6% on software, 82.8% on fixed assets, 1.6% on industrial design and other preparations for technological innovation, and 1.5% on marketing connected with the introduction of technological innovations.

In the light of the Barcelona objective, the situation in Poland is exceptionally unfavourable in terms of both the outlays on R&D and their structure. In 2001, the outlays on R&D totalled 0.65% GDP with the share of **the national budget of 64.8%, and that of the private sector of only 30.8%**. Such level and structure of outlays characterise more weakly developed countries. In 2002, the total outlays on R&D increased by 9.4%.

The number of patent applications per 10,000 inhabitants or the “innovativeness factor” is commonly regarded as a major indication of the trends in the innovative processes. In Poland, that figure decreased systematically to reach 0.6 in 2001.

At the same time, during the pre-accession period, Poland commenced preparations to be actively involved in the implementation of the Lisbon Strategy, seeing it as an opportunity to increase the competitiveness and innovativeness of its economy. Under the governmental programme of growth-oriented measures for 2003-2004 (Entrepreneurship–Development–Work II), the role of innovation was strengthened in stimulating economic development. The government's activities in that area concentrate on:

- ❖ supporting the creation and development of innovative companies,
- ❖ strengthening co-operation between R&D institutions with the economy,
- ❖ improving systemic solutions for the increase of innovativeness.

The basic objective of pro-innovative activities is to improve the competitive position of the Polish economy owing to an increase in the innovativeness of enterprises, **which will help revive the economy**. This objective will be attained through the pursuance of the following targets:

- ❖ Increasing the capability of enterprises to absorb Structural Funds provided for in the Sectoral Operational Programme – Improvement of Competitiveness of the Economy,

- ❖ Creating conditions to enable an increase in the outlays of entrepreneurs on the utilisation of the results of scientific research and development work and innovative activities,
- ❖ Continuing systemic changes in R&D work to increase its co-operation with the economy¹³.

Support to the creation and development of innovative companies is to be provided through the design of new solutions increasing preferences in support from the national budget to investment in technological innovation, including advanced technologies, and the introduction of instruments supporting the creation of innovative companies, i.e. consulting services, investment grants, loans on preferential terms and seed capital funds. Plans include support for the establishment of a system of industrial and technological parks and technological incubators, comprising both the preparation of feasibility studies, environmental impact assessments and business plans, as well as, in the subsequent stage, support to investment. The provision of support based on the principles developed is scheduled for 2004-2006.

Work is also under way on new solutions increasing preferences in providing financial support from the national budget to investment in technological innovations, including advanced technologies. Solutions in that regard are comprised in the **amended law on financial support to investment projects** and in the implementing by-laws thereto. The amended law provides for the possibility of applying for support to investment projects sited in technological and industrial parks.

Furthermore, activities concerning support to the establishment and development of innovative companies are undertaken by the Ministry of Economy, Labour and Social Policy through the Polish Agency for Enterprise Development (PAED) which, in the scope of:

- supporting the creation of a system of industrial and technological parks and technological incubators:
- giving loans for innovations:
- preparing for implementation the Phare 2002 ESC Sectoral Programme “SME and Innovativeness” (support schemes: “*Access to Innovative Services*” and “*From Innovation to Business*”) comprising: financial support to the costs, incurred by SMEs, associated with the purchase of specialist consulting services improving productivity and quality; consulting services in the process of company management based on innovations during start-up and/or after the commencement of operational activities, and investment subsidies for innovative enterprises that previously used consulting assistance.

A measure necessary for stimulating entrepreneurship and increasing competitiveness of the Polish economy is **to adapt R&D institutions to the needs of the economy and increase their share in its stimulation**. Therefore, a continuation of measures concerning the restructuring of R&D institutions through the development of proposed systemic and organisational changes and a schedule of their implementation by the Inter-ministerial team for transformation of research and development institutions, which is scheduled for the fourth quarter of 2003, is a major segment of government activities. Commercialisation and

¹³ The scope of work as presented comprises activities initiated during the pre-accession period and continued during the first years of Poland’s membership in the EU. For 2004-2006, measures aimed at increasing the innovativeness of the economy have been planned in the documents programming the Structural Funds, under the *National Development Plan* – predominantly in *SOP – Improvement of Competitiveness of the Economy* and in the *Integrated Regional Development Operational Programme* and *SOP – Human Resources Development*.

privatisation of R&D institutions is made possible under the Law of April 24, 1997 on the amendment of the Law on research and development institutions (Journal of Laws, No. 75, item 467, as amended)¹⁴.

Improvement of systemic solutions for increased innovativeness will be pursued through measures concerning:

- ❖ the Law on activities supporting innovativeness,
- ❖ long-term programmes concerning tasks supervised by the minister competent in economic affairs,
- ❖ research projects commissioned and supervised by the minister competent in scientific affairs.

Among innovativeness initiatives undertaken by Poland¹⁵, reference should also be made to the support of the implementation of the Regional Innovation Strategies (RIS), enhancing co-operation between scientific organisations with the economy, adoption of national research programmes on Advanced Technologies, New Technologies for SMEs, and the launching of the foresight programme.

The Regional Innovation Strategies constitute the basis for planning activities at the regional level that aim at enhancing the innovativeness of the regions through the co-operation of all regional partners. By the end of 2003, all voivodships will have been comprised therein. The RIS results are accumulated and constitute the basis for the development, by 2005, of the National Innovation Strategy (NIS), which will be the result of the integration of Regional Innovation Strategies. The NIS will ensure a better co-ordination of activities for the growth of innovativeness between the central government and local government administration. The signing of agreements and the development of the Regional Innovation Strategies is scheduled for completion in all voivodships in the fourth quarter of 2003.

After the law on the financing of science comes into force, national research programmes will be introduced. Two types of national research programmes are planned: Advanced Technologies, comprising for example the following programmes: Advanced Materials, Biotechnologies, Healthy Foods. The other programme is entitled New Technologies for SMEs and aims to prepare a database of technologies comprising all project initiatives submitted, projects implemented and technologies generated. The database of technologies will be updated regularly and will be made available to SMEs.

Since June 2003 work has continued to launch the Foresight programme. The aim of this programme is to define research fields and technology developments of priority to the Polish economy and the necessary conditions therefore. The Foresight programme is already being implemented in some regions under the RIS. That is why in the national Foresight programme now being prepared, work will be undertaken simultaneously at the national and regional levels. The programme should be launched in the fourth quarter of 2003. For six months now, the Initiative Group for the Foresight Programme has been working at the Ministry of Scientific Research and Information Technology.

¹⁴ The Interministerial team for ownership transformations of research and development institutions, established by decision of the Minister of Economy, Labour and Social Policy of March 31, 2003 completed its work and presented its report on September 30, 2003. The report containing, among others, proposals for the restructuring of research and development institutions, will be subject to consultations in accordance with the procedure of submitting documentation for consideration by the government.

¹⁵ Ministry of Scientific Research and Information Technology.

The initiatives of the Ministry of Scientific Research and Information Technology concerning support to innovativeness have also been included in the prepared document (Knowledge-Information Technology-Competitiveness (KITC)). The following are considered to be the most strategic initiatives to strengthen the regions' innovative potential:

- development of scientific and research potential,
- development of the Polish research space,
- development and implementation of a national innovation strategy,
- support to the development of an information society.

In order to meet the challenges of an accelerated transfer of the results of research to enterprises, and also to jointly (science and companies) implement technological innovations, the establishment of Centres of Advanced Technologies (CAT) has been initiated.

The objective of these Centres is to support the system of integrated research and technology complexes with state-of-the-art research infrastructure and high quality scientific and research staff capable of competing on the market of research and innovation. The Centres will be established in the thematic areas of priority to the Polish economy, termed to date as "bio", "info", "techno". The CATs will gather scientific institutions and enterprises and can operate in various institutional forms. They should also co-operate with other organisational forms working within their immediate surroundings, such as technological incubators, centres of excellence and technology transfer centres.

COMPETITION POLICY

Concerning the competition policy, Polish law is in compliance with European legislation. The provisions of that law apply to all sectors of the economy and entities representing all forms of ownership. Current work in the field of competition policy concerns, on the one hand, the practical aspects of the law in that regard and, on the other, legislative work relating to the amendment of national legislation on competition in order to harmonise it with the changed rules of competition within the EU. The strategy for the implementation of the law is pursued in line with the "Report on the State of Competition, together with the Competition Policy for 2002-2003".

The authority responsible for the protection of competition and consumers and the supervision over state aid granted to enterprises in Poland is the President of the Office for Competition and Consumer Protection (OCCP). The President of the OCCP aims to strengthen market mechanisms, eliminate monopolistic practices of enterprises and limit the number of infringements of consumers' rights.

The legal basis for the implementation of the competition policy is the Act of December 15, 2000 on competition and consumer protection (Journal of Laws, No. 86, item 804, as amended), which is in full compliance with the *acquis communautaire*. The act contains *inter alia* regulations concerning the control of concentrations, prohibits competition restricting practices and regulates the proceedings before the President of the OCCP. In connection with the reform of Community implementing regulations to Article 81 and 82 of the Treaty establishing the European Community and the coming into force on May 1, 2004 of new regulations in this scope, an amendment of the act has been drafted at the OCCP for the Polish anti-monopoly authority to meet the challenges under the newly-established European Competition Network.

In 2002, the President of the OCCP issued 393 decisions on the abuse of dominant positions, 40 decisions concerning competition restricting agreements, and 169 decisions on the control of concentrations

Consumer protection

Responsibilities of the President of the OCCP in consumer protection are performed *inter alia* through the implementation of by-laws concerning market supervision and activities undertaken on the basis of the Law on counteracting unfair competition of April 16, 1993 (Journal of Laws, No. 153, item 1503, as amended). In 2002, in the implementation of the law on general product safety of January 22, 2000 (Journal of Laws, No. 15, item 179), the anti-monopoly authority conducted 98 explanatory proceedings, and as at the end of the year, nine administrative proceedings in that regard were pending.

The President of the Office also implements regulations concerning non-permissible contractual provisions. Upon the President's motion in that regard in 2002, a total of 15 proceedings were either filed or pending in the anti-monopoly court, and 33 provisions considered by the Court for the Protection of Competition and Consumers to be non-permissible were entered in the register of sample contractual provisions.

A substantial role in the performance of the responsibilities of the OCCP's President as regards the protection of consumers' rights is played by the Trade Inspectorate reporting to the President of the OCCP and the poviats consumer rights advocates.

State aid

In July 2002, the Law on the conditions for admissibility and supervising of state aid for entrepreneurs was passed (Journal of Laws, No. 141, item 1177, as amended). The law ensured full compliance of the Polish policy concerning the control of state aid with the requirements of the *aquis communautaire*. The Council of Ministers also adopted more than ten implementing by-laws thereto. In 2002, the OCCP President issued 1,002 opinions on the compliance and 25 opinions on the non-compliance of the granting of state aid with the provisions of the law. The Office was also involved in the establishment of a national system for supervising state aid (databases on state aid were established).

Aid granted to enterprises in 2002 totalled PLN 10,277.6 million (EUR 2,665.6 million¹⁶). The aid constituted 1.3% GDP compared with 1.5% in 2001, which is close to the average share of state aid in the GDP of EU Member States in 2000 (1.08%). The level of state aid per capita in Poland is much lower than in EU Member States¹⁷. Poland is also characterised by a smaller proportion of sectoral and ad hoc aid in relation to the GDP than the EU (0.37% GDP in 2000, with 0.69% GDP in the EU15).

During the past year tendencies were noted that comply with the undertaking of Member States, made at the Stockholm summit, to decrease the general value of state aid and re-orientate the aid from sectoral to horizontal objectives – compared with 2001, the total value

¹⁶ At the 2002 average exchange rate, EUR 1 = PLN 3.8557.

¹⁷ In 1998-2000, the average annual EU figure was EUR 230 (in Luxembourg the figure was more than twice as high, and in Greece and the UK it was almost twice as low), and in the case of Poland, the rate was significantly different even from that of those EU states whose level of aid per capita was the lowest – in 2000, it was only EUR 50 and in 2001 – EUR 77, and it was much lower than in Greece, UK, Portugal and Spain.

of aid fell, the level of sectoral aid and aid to agriculture was reduced, whereas the level of horizontal aid increased slightly.

RESTRUCTURING AND PRIVATISATION OF STATE-OWNED ASSETS

The principal objective of restructuring and privatising state-owned assets is to render selected sectors and enterprises profitable so they do not pose a burden to the economy resulting from either the need to subsidise them or their failure to settle their liabilities. Funds obtained in this manner can be used to support modernisation and development processes.

The following problems still remain unsolved:

- ❖ the low degree of privatisation of traditional capital-intensive branches of industry, especially mining, metallurgy, coke, oil-processing and energy sectors,
- ❖ the absence of economically desirable processes of consolidation and concentration of excessively fragmented weak economic units in order to create economically stronger entities capable of competing on the domestic and foreign markets,
- ❖ too little progress in the modernisation of industrial production and development in the manufacturing of new and modernised products as well as “advanced technology” products in the total industrial production. A consequence of this is slow progress also in the export of industrial products. This results above all from years-long low outlays on R&D and innovativeness in industry, shortcomings in the state innovation policy and its implementation. This pertains in particular to systemic solutions in support of demand, on the side of entrepreneurs, for the results of R&D work.

Restructuring programmes are under way comprising the following sectors: power engineering, hard coal mining, iron and steel, chemical, pharmaceutical, light, ship-building, automotive, electronic industries, industrial defence potential and wood processing. Programmes concerning structural changes in the gas, oil and chemical sectors are being implemented in accordance with the description contained in the *Pre-accession Economic Programme 2002*.

In order to alleviate the social consequences of implementing them, restructuring programmes are supported by the Government’s horizontal measures to offer assistance to enterprises experiencing financial difficulties and a chance to maintain their operations (employment) and undertake restructuring.

This purpose is served by the Law of August 30, 2002 on the restructuring of certain liabilities of enterprises under public law (Journal of Laws, No. 155, item 1287, as amended) and the Law of October 30, 2002 on state aid to enterprises of special importance to the labour market (The Journal of Laws, No. 213, item 1800, as amended).

Sectoral restructuring is regulated by the respective programmes.

Adopting in April 2002 the document on the *Evaluation and Revision of the Energy Policy up to 2020*, the Council of Ministers reviewed the implementation of the energy policy and set the strategic objectives and directions of further changes. On January 28, 2003 the Council of Ministers adopted the following documents:

- ❖ an update of the programme for the introduction of the competitive electricity market in Poland, identifying market-oriented measures aimed to improve the effectiveness of the enterprises in that sector, strengthening their capital standing and improving the quality of services and electricity supplies provided to consumers,

- ❖ *Programme of implementation of the ownership policy of the Minister of State Treasury concerning the power engineering sector*, which contains a detailed programme of measures aimed at implementing the concept of ownership transformations outlined in the document of April 2002.

The main document that defines the objectives and principles of restructuring and privatising the gas sector is the *Programme of restructuring and privatisation of the Polish Oil and Gas Company* adopted by the Council of Ministers on August 13, 2002 whereas the *Strategy for the Oil Industry in Poland* adopted by the Council of Ministers on September 24, 2002 sets out the objectives and principles of privatising the oil sector¹⁸.

The transformation of hard coal mining to date has led to an improvement of all basic indicators concerning the concentration of production and labour productivity in that sector. Employment has been reduced to 141,000 people and the mining capacity to approx. 100 million/year, but the sector's financial problems have not been solved. The government has undertaken work on a programme of restructuring hard coal mining for the years 2003-2006, as a result of which, on January 28, 2003, the Council of Ministers adopted:

- ❖ *Programme of restructuring hard coal mining in Poland in 2003-2006 with the application of anti-crisis laws and initiation of the privatisation of certain coal mines*,
- ❖ *Concepts of the programme of alleviating in the region of Silesia of the consequences of the employment restructuring in hard coal mining*.

Because the sector is almost entirely state-owned, the costs of restructuring are incurred by the state budget. Total direct costs for the years 1998–2002 have been estimated to 7.2 billion PLN, of which 1.5 billion PLN were allocated for expenses relating to closing of mines, with the remaining amount incurred for environmental protection and mitigating social consequences (where the key element are costs of dismissals of miners). Another element of the programme is to resolve the sector's indebtedness by means of financial restructuring. It is necessary to cancel and restructure a large amount of debts, the majority of which being unpaid social insurance rates, overdue from the period preceding the start date of current reforms.

An opportunity to improve economic results of entities in the sector may also be seen in capital transformations. They may concern both joining collieries with plants using produced by them coal (such as power or coke plants) as well as privatisation.

The coal sector restructuring program assumes closing of some mines having the worst economic results and the largest threats for safety of work. It will concern coal mines having altogether production capacities, which at the end of 2002 amounted to 12.7 mln tones. The reduction of employment in the sector people should be at the level of 27 thousand.

The new restructuring program stipulates also that in entities of the sector the financial restructuring of liabilities will be carried out for the total sum of 19.8 bln PLN.

Of particular importance in the **iron and steel metallurgy** is financial restructuring to a degree necessary for the further operation of steelworks, with the parallel closure of ineffective production capacities.

In accordance with the common position, consulted with the European Commission and accepted by the Polish government, a document has been prepared on the *Restructuring and Development of the Iron and Steel Industry up to 2006*, adopted by the Council of Ministers on January 10, 2003, with amendments accepted on March 25, 2003. The document identifies

¹⁸ The functioning of the markets is discussed in a separate section.

six steelworks that will benefit from state aid until the end of 2003. In the steelworks comprised in the program, the employment level at the end of 2002 reached approx. 30,000. During 1999-2002, a total of PLN 107 million from the national budget was used to support the restructuring of employment. The amount of PLN 23 million is planned to be spent on further necessary rationalizations of employment by the end of 2003, and another PLN 70 million by the end of 2006.

In order to ensure the proper functioning and development of the domestic **chemical industry** over the coming years, improve its competitiveness, modernise the techniques, technology and management organisation and support harmonization with EU requirements, the *Strategy for the Chemical Industry in Poland to 2010* has been developed and was adopted by the Council of Ministers on June 4, 2002.

Currently, final work is being continued on the draft “*Strategy for the Restructuring and Privatization of Entities of the Industrial Chemical Synthesis Sector*”. Implementation of the Strategy will enable the creation, out of particular industrial chemical synthesis plants, new entities with strong market positions, stable finances and prospects for further rapid development. A role in the co-ordination of, and support to, the investment processes has also been vested with Nafta Polska S.A. (Polish Oil Company) under an authorization from the Minister of State Treasury. Nafta Polska S.A. should engage *inter alia* financial resources from privatization proceeds in the chemical and oil sectors.

The “*Strategy for the **wood processing** industry to 2006*” was adopted by the Council of Ministers on August 19, 2003. The Strategy presents the current situation in the wood processing sector, pointing to its strengths and weaknesses and, against this background, the necessary measures – including legal instruments – serving the purpose of improving the potential to compete on the single European market.

The “*Strategy for the **pharmaceutical industry** to 2005*”, adopted in October 2002, formulates the basic measures to ensure the proper functioning and development of the domestic pharmaceutical industry over the coming years. Measures in that regard should focus on adapting the industry to EU requirements, preparing a programme for restructuring and privatising the sector, which will improve the competitiveness of the pharmaceutical industry, modernise it and increase its export capacity.

The “*Strategy for the **light industry** for 2000-2005*” was adopted by the Council of Ministers in 2000. In 2002, following an annual evaluation of the measures undertaken under the Strategy, the necessary directions for the intensification of activities were identified. In June 2002, Bank Gospodarstwa Krajowego was bound by an agreement for support to interest rates on bank credits to the light industry. The relevant procedure was launched. By the decision of the Council of Ministers, the term of the Strategy has been extended until 2007.

In July 2002, the document was adopted on the *Situation in the Polish **shipbuilding industry**, proposed directions of actions and mechanisms for the support of that sector*. Temporary measures were directed at providing support to the Shipyard in Szczecin and improving the system of building ships in the Gdynia Shipyard. A Team for the Shipbuilding Industry has been operating since July 2002. As part of its activities, a system of State Treasury “rollover” securities has been developed to secure loans to shipyards and revolving insurance guarantees from KUKI S.A. The implementation of any state aid instruments relates to radical measures undertaken by shipyard managements in order to carry out the required restructuring aimed at improving the effectiveness of the operation and increasing competitiveness on the global ship market.

On January 7, 2003, the Council of Ministers adopted the document on the “*The Automotive Industry – directions for development*”. It contains a description of the situation on the Polish **automotive market** and proposals of measures necessary for reversing unfavourable trends. The rules of assessing excise duty on passenger cars have been changed. The requirement has been introduced to present, upon the first registration of cars in Poland, additional documents evidencing that on the date of its first registration the vehicle met the EURO 2 exhaust gas purity standards. Work is currently under way to introduce solutions for eliminating irregularities relating to the admission of vehicles into operation. Simultaneously, measures are undertaken to maintain production and jobs in Polish Daewoo companies threatened with closure.

The “*Strategy for the electronic industry to 2010*” was adopted in January 2003. Its objectives include:

- ❖ reaching in 2003-2006 the growth rate of sold electronics industry production by at least 8% per annum,
- ❖ achieving the average EU level labour productivity rate per employee by 2010,
- ❖ aiming to attain a positive import and export balance of manufacturing enterprises in the sector (particularly in industrial electronic assembly).

The measures under the “*Strategy for the electronic industry to 2010*”. include:

- ❖ analysis of, and proposed changes in, systemic solutions affecting the functioning and development of the electronic industry,
- ❖ preparation for the dissemination of digital television and radio broadcasting in Poland,
- ❖ preparation of the stipulations for the establishment of technological parks,
- ❖ continuation of the long-term plan of *Creating the technological and production foundations for a new branch of industry – blue optoelectronics*.

The “*Strategy of structural transformations in the industrial defence capacity in 2002-2005*” continues to be implemented. A factor conditioning the process of structural transformations of the **industrial defence capacity (idc)** are changes in the legal infrastructure of the functioning and restructuring of the idc. As a result of the above, the laws listed below have been amended:

- ❖ the Law of September 10, 1999 on certain offset contracts executed in connection with the contracts for supplies for the needs of state defence and security. The amendments consist above all in rendering conditions of accepting offset by Polish entities more flexible, and ensuring more effective security of the Polish economy’s interests, with intensifying efforts to encourage offset providers to ensure the most attractive offset programmes¹⁹,
- ❖ the Law of August 23, 2001 on the organisation of tasks for state defence undertaken by enterprises²⁰,
- ❖ the Law on the amendment of the Law of October 7, 1999 on support to the restructuring of the industrial defence capacity and the technological modernisation of the Armed Forces of the Republic of Poland. The amendment consisted in particular in the Minister of Economy, Labour and Social Policy delegating property-related powers, following in particular from the rights under stock and shares owned by the State Treasury, to the Minister of the State Treasury. At the same time, formal conditions have been created for

¹⁹ Journal of Laws, No. 80, item 903, as amended

²⁰ Journal of Laws, No. 122, item 1320, as amended

the utilisation of funds from privatisation to support the restructuring of the idc, and the catalogue of measures in support of that process has also been extended²¹.

The development of Polish industry is also to be ensured by the inflow of investment under offset contracts. These contracts relate to supplies in the Republic of Poland of weapons or military equipment for the needs of state defence and security²².

The Polish offset law is regulated in:

- ❖ the Law of September 10, 1999 on certain offset contracts executed in connection with contracts for supplies for the needs of state defence and security (Journal of Laws No. 80, item 903, as amended);
- ❖ the By-law of the Council of Ministers of July 2, 2002 on the detailed rules of accounting offset obligations of foreign suppliers of armaments or military equipment to the offset contract price (Journal of Laws No. 100, item 907).

Since the offset law came into force, six offset contracts have been signed. The subject of the negotiated offset obligations are direct investment projects, technology transfer, co-operation on a sub-contracting basis, commissioning of R&D studies from Polish centres, purchase of products manufactured by Polish producers, providing marketing support aimed at increasing export, with particular emphasis on small and medium-sized enterprises.

Privatisation in particular sectors of the economy

The core privatisation programmes should have been completed by the end of 2006. During that period Poland should achieve ownership structure similar to that of the Member States of the European Union (EU), in which the share of public property in the economy does not exceed 10-15%.

As a result of privatisation activities conducted so far, the number of state enterprises declined considerably from the estimated 8,453 in 1990. That was achieved through a variety of ownership transformation methods and economic processes: privatisation, liquidation, bankruptcy, transfer of ownership to local self-governments (municipalisation).

In accordance with the data as of the end of September 2003, the number of active state enterprises was reduced to 531. In other 689 state enterprises legal proceedings are conducted, aimed at the termination of their activity: 140 state enterprises were put to liquidation, and in the case of 549 bankruptcy was declared. The Treasury owns shares in 1,329 active commercial code companies, including 448 in which it is a majority shareholder.

From the perspective of 12 years of Polish privatisation, one can claim that privatisation has been completed in such sectors as: trade and services, automotive industry, household appliances, construction, electric engineering, cement, timber and furniture, food processing, tobacco. Advanced privatisation processes are conducted in such sectors as: banking, insurance, pharmaceutical, sugar, spirits, shipbuilding, transport, oil, electric energy, metallurgic, publishing and printing industry. The last group consists of the sectors, in which the privatisation has only been initiated, and its continuation strictly depends on the implementation of restructuring processes. The said sectors include mining, gas industry, heavy chemicals, and defence industry.

²¹ Journal of Laws, No. 83, item 932, as amended

²² These are usually high-value purchases, with the direct or indirect involvement of the state. The obligation to enter into an offset contract arises also when the value of supplies from a single foreign supplier over a period of three consecutive years is in excess of EUR 5 million.

Maintenance of state property is envisaged in the case of sectors and enterprises which are of strategic significance for the economy, such as airports and seaports, railway networks, electricity grids, gas and oil transmission pipelines, backbone telecommunications networks or strategic storage basis. The sectors, which will remain state-owned, are those in which full by-law of the market cannot be implemented. That concerns most of all certain public utilities, such as certain scientific institutions, core educational institutions and postal services. The Treasury will remain the owner of public television and radio. The state will also retain control over companies realising specific public goals defined in separate by-laws, such as Totalizator Sportowy or Monopol Loteryjny gambling monopolies.

Advanced privatisation processes

The majority of privatisation processes in the **banking sector** were finalised. The State Treasury supervises directly three banks now: Bank Gospodarki Żywnościowej (BGŻ) and Bank PKO-BP and Bank Gospodarstwa Krajowego – having a status of state-owned bank. In 2004, it is planned to involve public listing of the PKO BP shares and to sale of the first block of Treasury shares (up to 30%) through the Warsaw Stock Exchange.

Continuation of privatisation processes in the **insurance sector** will consist in implementation of the second stage of privatisation of the largest Poland insurance company – PZU S.A. The prerequisite for the public offering of PZU to go ahead is termination of the dispute between the Treasury and the strategic investor in PZU.

As a result of privatisation activities conducted so far, the Treasury owns only 4 entities from the **pharmaceutical sector** (12 were privatised). In accordance with the privatisation strategy for the pharmaceutical sector, consolidation of the said entities (which together would hold 10% of the Polish market) is planned, as well as listing of the share in the newly established pharmaceutical holding on the Warsaw Stock Exchange.

In the **oil industry**, the Ministry of the Treasury implements the development strategy of the Lotos Group (formerly Rafineria Gdańska) through contribution to the company of three southern refineries (Czechowice, Jasło, Glimar), and in the future also of the company Petrobaltic. The Ministry of the Treasury envisages privatisation of the Lotos Group after it has been established. Independently of the works on the establishment of the Lotos Group, the Ministry of the Treasury will also undertake work on the project of the Central European fuel consortium with participation of PKN Orlen and possibly of the Lotos Group.

Privatisation of the **electric energy sector** has been much more advanced. So far, 4 out of 17 power plants, as well as 9 out of 19 thermal power plants, have been privatised. Apart from individual privatisation projects being currently implemented (in 1 power plant and 4 thermal power plants) consolidation processes based on two capital groups are conducted:

- ❖ BOT Group (which will consist of two lignite mines and 3 lignite-fired power plants),
- ❖ PKE Group (consisting of 9 entities, including one hard coal mine, the Ministry of the Treasury is planning to contribute 4 more entities to PKE).

In both groups privatisation through a public offering is envisaged.

Consolidation processes are also planned in electric energy distribution companies (so far 2 electric energy distribution companies have been privatised in individual projects). At present, privatisation is implemented in G-8 Group (established on the basis of 8 energy enterprises). Further consolidation and privatisation activities will be conducted around 4 regional groups: The electric energy group ENEA S.A. (established January 2, 2003) and three groups of

electric energy plants (from from south-west, east and south east as well as from central and east Poland).

In the **telecommunication sector**, as a result of privatisation activities conducted so far, the Treasury owns a minority block of shares in the largest telecommunications operator– TP S.A. (14.5%). However, the Ministry of the Treasury is planning to sell that block of shares through a public offering (the date of the sale will take into account the situation on the capital market).

Due to the situation in the **airline industry**, in the immediate future, the Ministry of the Treasury does not envisage continuation of privatisation processes in PLL LOT, Poland's national carrier (in the first stage of privatisation a minority block of shares was taken up by Swissair and LOT employees).

On October 27, 2003, the representatives of the Ministry of Treasury and LNM Holding N.V. signed the conditional agreement concerning the sale of 60% of the largest Polish **steel producer**, Polskie Huty Stali - PHS S.A. shares (it is company established as a result of consolidation of 4 steel mills). After PHS S.A. has been privatised, the core privatisation process of the steel sector will be completed.

Initiated privatisation processes

Privatisation in the **coal sector** will be preceded by restructuring and consolidation of enterprises in that sector. The following organisational solutions are foreseen:

- ❖ 5 entities will function independently (two coal companies: Katowicki Holding Węglowy and Jastrzębska Spółka Węglowa, Lubelski Węgiel Kamienny Bogdanka, KWK Budryk, Zakład Górniczo-Energetyczny Sobieski-Jaworzno III),
- ❖ 23 mines with prospects for sustainable and profitable activity established the Coal Company (the company was registered on January 23, 2003),
- ❖ mines facing the worst economic situation will be put to liquidation.

The ultimate goal of the state is to withdraw from the function of the owner in favour of the regulator and administrator of the coal mining sector. So far, privatisation has been initiated in two coal mines: Bogdanka and Budryk. The remaining entities will be privatised after their restructuring has been completed.

Currently, the restructuring, product and market consolidation strategy, as well as privatisation of 6 entities from the **heavy chemicals sector** are being elaborated. The purpose of heavy chemical enterprises restructuring is to privatise them within 2-5 years. The privatisation process will consist in involvement of strategic capital investors, interested in development and modernisation of domestic industry. In cases justified by investment needs of heavy chemical entities, there are plans for privatisation through the expansion of the initial capital and acquisition of shares/stakes by the investor in the expanded capital.

The restructuring process of the sole operator on the Polish **gas market** – PGNiG continues. That process consists in separation of distribution subsidiaries from PGNiG (they began their activity on January 1, 2003), as well as separation of a search and exploration company. After completion of organisational restructuring, sale of minority blocks of shares in PGNiG through a public offering is envisaged.

With regard to the **defence sector** capital consolidation, the following two groups have been established:

- an aviation - radio - electronics group, established through the increase of the initial capital of ARP S.A. (the Industrial Development Agency) with shares and stakes in 5 defense companies in return for taking over by the Treasury of shares in the increased initial capital of ARP S.A.
- amunitions – rocket - armor group, established through the increase of the initial capital of PHZ „BUMAR” Sp. z o.o. foreign trade company with shares and stakes in 7 defense companies in return for taking over by the Treasury of shares in the increased initial capital of Przedsiębiorstwo Handlu Zagranicznego „Bumar” Sp. z o.o.

It is envisaged that the Minister of the Treasury will contribute the remaining "residual" Treasury shares in companies from capital groups in order to increase the capital of ARP S.A. and PHZ „Bumar” Sp. z o.o. Moreover, at the next stage, contribution of 5 defense companies to PHZ „Bumar” Sp. z o.o. will take place, after they have been restructured.

As regards companies not be included in the above mentioned capital groups, privatization procedures will be initiated in them on individual basis. So far, privatization of two companies has been completed. The remaining projects are at different stages of ownership transformation.

In the years 2000-2003 the reforms on the Polish State Railways (Polskie Koleje Państwowe PKP) - based on “The Programme of restructuring of the Polish State Railways enterprise (addopted in September 1999) as well as on the Law of September 8, 2000 on restructuring, commercialisation and privatisation of the state enterprise Polish State Railways (Journal of Laws No. 84, item 948, as amended) - were implemented. The amendment²³ to the Law of March 28, 2003 introduced provisions assuring co-operation between subsidiaries of the PKP Group, necessary considering the technical functions and capital connection and also the enterprises obligation to possess adequate financial support. At the moment „The Programme of further restructuring of subsidiaries of the Polish State Railways Group by 2006” is under legislation process.

THE LIBERALISATION IN THE AREA OF ENERGY²⁴

In July 2002 Law on amending the Energy Law of April 10, 1997 was enacted (Journal of Laws of 2003 No. 153, item 1504). The purpose of the amendments was adaptation of provisions of the Energy Law to the binding standards of the UE law in this field. The Minister responsible for the economy received new responsibilities concerning *inter alia* obligation originating from the EC regulation number 736/96/EC of April 22, 1996 on informing the European Commission on energy investment projects. The amendment also introduced new provisions providing for precise rules concerning designation of network systems operators and determining rights and obligations of energy enterprises, functioning as the electricity or gas systems operators. The amendments should bring about more coherence and reliability of functioning of joint networks and implementation of the market and transit directives.

As far as licensing is concerned the provisions limiting possibilities of obtaining a license (a concession) exclusively to entities with the place of residence in Poland have been supplemented by new rules allowing issuing a license to entities from the member countries

²³ Journal of Laws No. 80, item 720

²⁴ Programmes concerning privatization and restructuring of the sectors mentioned below are presented in the part concerning Restructuring and Privatisation

of the EU. In addition, conditions which must be met by the owner of a license to ensure adequate level of consumer service have been made more precise.

The provision, which conditions the application of TPA principle depending on the origin of fuels or energy and limits the possibility of using transmission services only to 'energy and fuels excavated or produced in Poland' will no longer be binding for Member countries of the EU upon Poland's accession to the EU. In the amended Energy law new provisions have been provided for which ensure the fulfillment of minimal procedural principles required by the Directives, such as prompt information on refusal to grant network access as well as the prohibition of discrimination of entities applying for transmission or distribution services.

According to the Energy Law provisions, the Minister responsible for the energy matters has a power to issue by-laws in order to constrain the price growth rate for the subsidized consumers, which results in cross-subsidization of households by the industrial customers.

Electricity sector

Cross subsidization between network and trade activities has to great extent been eliminated according to the requirements of the Energy law. This process is supervised by the President of the ERA in the process of approving tariffs for the energy companies operating in the field of electricity transmission and distribution. The development of the competitive electricity market will contribute to the progress in ensuring transparency of prices. This brings about a need to solve the problem of long term purchasing power agreements (PPAs), introduction of settlements of ecological costs and making the obligation of purchases of electricity co-generated with heat more flexible. The adopted measures will allow for the introduction of market mechanisms to generation and trade in electricity.

Elimination of cross subsidizing between various forms of energy activities should be triggered by unbundling of trading and network activities of the distribution companies. Elimination of cross-subsidization between consumer groups is limited by the provisions of the tariff by-law that constrain the price growth rate for the household consumers.

The introduction, within the Program of long-term contracts restructuring, of the System Restructuring Fee /SRF/, will lead to elimination of distortions in the system of payments for electricity and transmission services. SRF, as a separate position on the bill, will constitute the cost of restructuring of long-term contracts, which so far is contained both in the prices of electricity as well as in transmission fees. Studies carried out indicate that due to the introduction of this mechanism, prices of electricity for final consumers are not expected to increase as the introduced SRF will be lower than the costs of long-term contracts hidden in those fees. The problem of long term purchasing power agreements needs to be solved as currently the PPAs account for over 60% of electricity trade in Poland and the electricity prices under the PPAs are higher than the market price.

In the new Government program for restructuring of the long term purchasing power agreements the PPAs will be terminated by law (the bill on the terms of compensation of restructuring costs is planned to be adopted in the first quarter of the 2004). The electricity producers will receive a compensatory payment replacing their PPAs.

Gas sector

The by-law of the Minister of the Economy of December 20, 2000 (Journal of Laws No. 1, item 8, as amended) on detailed principles of shaping and calculating tariffs and on principles of settlements in trade of gaseous fuels provides for the obligation of protection of interests of recipients requiring subsidization through a reduction of real rate of increase of prices and tariffs to 15 % in the case of transmission fees.

The crucial element in the process of controlling costs of supply of gas fuels has so far been the tariff of the vertically integrated Polish Oil and Gas Company /POGC/. As of the beginning of 2003, the process of internal separation of particular forms of POGC's activities has been initiated by the creation of a holding structure. Six distribution companies have been established as of January 1, 2003. Network access for the gas originating in the EU countries will be dependent on the technical conditions and take-or-pay obligations.

In the new organizational structure of the gas sector tariffs are approved on the individual basis for each of the distribution company separated from the POGC structure.

In September 2003 the President of the Energy Regulatory Agency /ERA/ approved new tariffs for gaseous fuels prepared by the companies of the Polish Oil and Gas Company capital group, which entered into force as of October 1, 2003. New tariffs however do not allow for complete elimination of cross-subsidization between consumer groups, hence a continuation of the initiated process is expected in the future.

The level of market opening in electricity, gas and district heating markets

The timetable of obtaining the rights to use transmission services by customers is determined in the by-law of the Minister of the Economy, Labour and Social Policy of January 20, 2003 (Journal of Laws No. 17, item 158).

Electricity market

According to this by-law customers who in 2002 purchased electricity for their own needs in amounts no less than 10 GWh are at present eligible to benefit by the use of TPA principle with respect to electric grid. The electricity generated in own sources is included in total purchase of an eligible customer.

Customers whose total purchase in 2003 will exceed the amount of 1 GWh will become eligible as of January 1, 2004, according to the by-law.

All customers regardless of their annual purchase of electricity will obtain the right to use the transmission services beginning from January 1, 2006 marking the full electricity market opening.

There is one Transmission System Operator (TSO) acting in Poland - Polish Power Grid Company who performs activities related to transmission of electricity through the highest voltages transmission grid (over 110 kV). The distribution grid (voltages from 110 kV to low voltage) is divided territorially among 29 distribution companies. About 200 companies who were granted distribution and trade licensed act in the locally separated areas on the site and the vicinity of the industrial facilities forming so called industrial power sector. There are about 80 licensed enterprises (16 of which are active) who deal only with trade in electricity owning no grid estate.

In 2002 around 640 customers enjoyed the eligibility status with the total electricity consumption corresponding to market opening of 37 %. It is estimated that after January 1, 2004 over 6000 customers each consuming in 2003 more than 1 GWh of electricity for their own use will obtain the right to use the transmission services, which corresponds to market opening of 53%. Actual level of the TPA principle utilization quantified as the amount of electricity purchased by the customers who use transmission services reached in 2002 about 4 % of the total national consumption of electricity.

Gas market

Power plants consuming gas for production of electricity and customers purchasing gaseous fuels in amounts no less than 25 mln m³ as converted according to high-methane natural gas equivalent are presently eligible to use transmission services with regard to gas grids.

Supplies of gas are in 97% dominated by the Polish Oil and Gas Company dealing with all remaining gas activities. Apart from PPGC there exist also other entities dealing with transmission of gas. One of more important is Europol Gaz SA, the company established to convey gas by Yamal gas-pipeline. There are 30 entities on the market with licenses for transmission and distribution of gas in local areas and for trade in gaseous fuels which are supplied with gas mainly by PPGC. In the gas sector 58 entities in total were granted licenses for transmission and distribution of gas and 63 entities – licenses for trade in gas.

According to the by-law of January 20, 2003, in the gas sector, as of January 1, 2004, consumers who in 2003 will have consumed gaseous fuels for their own needs in amounts no less than 15 mln m³ as converted according to high-methane natural gas equivalent, will become eligible. The rest of customers regardless of the annual purchase will become eligible as of January 1, 2006.

Heat market

According to the above mentioned by-law of January 20, 2003 all customers of district heating have been eligible since January 1, 2003. However utilization of the transmission services in district heating practically non-existent due to technical (grid capacity, metering) and economic (as it results in price increases for remaining customers) considerations.

Changes in rules of the electricity balancing market operation.

The essential change implemented by the TSO from July 1, 2002 (on the basis of Code of Utilization and Operation of the Transmission Grid consisting i.a. of Electricity Balancing Market Rules), consisted in the application of two imbalance settlement prices different for electricity purchase and sale transactions settled on the balancing market. The introduction of such a solution was aimed at encouraging the balancing market participants to more precise planning their daily electricity sale or purchase amounts (with some tolerance level applied - the so-called non-sensitivity band of +/- 1%) and lowering the costs of clearing out system restrictions born by the TSO.

A positive effect of the implementation of modifications was a drop in tradeover on the balancing market (to about 2% of daily demand) with a respective increase on the Polish Power Exchange (even to 3%). Independently the Polish Power Exchange successively introduces new instruments of trade in electricity. Apart from the day-ahead market the new financial futures market was introduced on October 1, 2002.

THE LABOUR MARKET

The implementation of the Polish labour market policy in 2003-2006 will be based on the guidelines of the European Employment Strategy and is to constitute a follow-up of the stipulations of *The National Strategy for Growth in Employment and Human Resource Development 2000- 2006*. The objectives of growth in employment and the reduction of unemployment will be attained through:

- ❖ increasing employability through the development in quality of human resources,
- ❖ developing entrepreneurship,
- ❖ improving the adaptability of enterprises and employees in changing market conditions,
- ❖ strengthening the equal opportunities policy on the labour market.

Pursuance of the stipulations and objectives of the Polish labour market policy is based on the guidelines formulated by the European Commission for 2003-2006 concerning national employment policies.

Relevant activities will be undertaken, to be contained in the National Action Plan for Employment. Their pursuance is conditioned *inter alia* by a thorough labour market reform.

The aim of the reform is to facilitate the operation of the labour market, measured by a decrease in the unemployment growth rate, followed by the reduction thereof and an increase in the level of employment. The labour market reform will comprise activities undertaken in three directions.

The first one is the increase in labour market flexibility realised through the following activities:

- realization of regional and local vocational activation programs,
- elaboration and implementation of the program of increasing the level of vocational activity in the pre-retirement age,
- continuation of the Vocational Activation Program for Graduates: *The First Job*,
- implementation of legal regulations concerning temporary work and other forms of flexible employment,
- implementation of new regulations concerning employment of foreigners in Poland aiming at the strengthening of the Polish labour market,
- development and improvement of the educational system (improvement of the education for the labour market, facilitation of the common access to the educational system, improvement of the quality and effectiveness of the educational system),
- increasing of the social employment, whose main task is the formation of special forms of employment of persons affected or threatened by social exclusion,
- implementation of the Law on activity of public utility and volunteerism.

The second direction of the labour market reform is improvement of the institutional service of the labour market. At present, works on the new model of the institutional service of the labour market are carried out. The need for introduction of the new model derives from the necessity of:

- improvement of the functioning of the system of public employment services, which have been dispersed after the Local government reform in 1999,
- adjustment of this system to the more effective and complex solution of social problems, in particular: unemployment, poverty, social exclusion,
- focusing on activities of institutions and instruments of the labour market towards promotion of employment and development of human resources, including extension of activities for training,
- adjustment of the system of institutions and instruments of the labour market to the EU requirements and standards and effective absorption of funds of the European Social Fund (ESF).

It is necessary to undertake actions that will connect educational system with the labour market one in order to adapt educational system to labour market needs, especially as far as the creation of new professions is concerned.

The third direction of the labour market reform is preparation for the implementation of the European Social Fund, which will be introduced by three programmes: Operational Program: Human Resources Development, Integrated Operation Program of Regional Development and Common Initiative Program EQUAL. The main activities will focus on the following aspects:

- preparation of structures at the central level indispensable for the management and implementation of the ESF, including obtaining the necessary employment level and training of the personnel,
- preparation of structures at the regional level indispensable for the implementation of the ESF, including obtaining the adequate level of employment and training of the personnel,
- preparation and testing of the subsystem of the ESF monitoring,
- elaboration of the ESF program documents and consultation with social partners,
- adjustment of the Polish legal system to the assurance of co-financing of the ESF,
- creation of the Steering Committee for the *Sectoral Operational Programme: Human Resources Development*.

As regards the labour market flexibility, it is indispensable to implement quickly amendments to the Labour Code and regulations contained in the program *Entrepreneurship First and Foremost*.

The introduction of a new Law on promotion the employment and the institutions of labour market is indispensable to implement the contemplations connected with the rationalization of the institutional framework for labour market. This Law will replace the actual one of December 14, 1994 on employment and counteract to unemployment (Journal of Laws No.58, item 514, as amended). It is also necessary to increase the amount of sources for active counteracting to unemployment.

It is assumed that the labour market reform will be implemented gradually in the whole analysed period (the reform will begin in 2003 and will end in: 2006). It is foreseen, that implementation of the labour market reform will enable achievement of the following qualitative results:

- dissemination of the new forms of employment and work organization,
- increase in competitiveness of the small and medium-sized enterprises,

- ensuring the quality improvement and widening the scope of services provided by the labour market institutions.

The labour market reform should contribute to the realisation of the tasks specified in the *National Development Plan*:

- decrease in unemployment rate (calculated on the basis of the GUS Labour Force Survey - BAEL) from the level of 19.9% in 2002 to the level of ca. 15% in 2006,
- increase in employment rate (calculated on the basis of the GUS Labour Force Survey - BAEL) from the level of 51.7% in 2002 to the level of ca. 55% in 2006,
- increase of the employment effectiveness of the basic labour markets programs measured by the rate of the renewed employment, as following:
 - training: from 44.5% in 2001 to more than 50% in 2006,
 - intervention works: from 67.8% in 2001 to ca. 70% in 2006,
 - training for graduates: from 35.2% in 2001 to more than 40% in 2006,
 - public works: from 13.3% in 2001 r. to ca. 15% in 2006.

The element of monitoring of the Polish employment policy is *Joint Assessment Paper*, (JAP), realized jointly with the EU. The essential directions of the employment policy have been identified in this document in order to cope with structural problems of the Polish labour market and prepare Poland to realization of the *European Employment Strategy*. It has been decided that Poland will present an annual report from the realization of decisions of this document.

On July 8, 2003 the Preparation Unit of the Committee for European Integration adopted the second and final report from the realization of decisions contained in JAP. The following stage in preparations of Poland to the realization of the *European Employment Strategy* will be preparation of the *National Action Plan for Employment* (NAP). Works on NAP will begin in the nearest future, and the document itself will be created on the basis of guidelines from JAP, *European Employment Strategy* and new challenges, which will occur on the labour market. The *National Action Plan for Employment* should be issued to the European Commission up to October 1, 2004, after accession of Poland to the EU. Issuance of this report is obligatory for all Member States.

THE PUBLIC ADMINISTRATION REFORM

Preparation of regional and local administration for absorption of the EU aid funds is one of the priorities of the National Programme of Preparation for Membership in the EU. In voivodeship offices, structures responsible for fulfilling function of the mediation institution in management of the voivodeship component of the Integrated Regional Development Programme (IRDP) are being created. It was planned that in all voivodeship offices organisational units for management of structural funds will be created. Those units will achieve full ability to realisation of tasks connected with management of the voivodeship component of IRDP until the end of 2003. At present it is assumed that sticking to the deadline for the creation of the above-mentioned organisational structures is not threatened.

On September 17, 2002 the Government adopted the Anticorruption Strategy, which included framework of the basic directions of legislative operations aiming to improve the structure of public administration. Within the framework of the elaborated Anticorruption Strategy the following works are continued:

- draft of the Law on public administration control,
- ethic training programme for officers of local administration of different levels,
- *Friendly office* programme covering, *inter alia*, proposals concerning improvement of the function of public administration offices and making them a friendly and transparent place for public.

Work has also been undertaken on legislative changes concerning employees of local government bodies as solutions relating to the improvement of existing anti-corruption mechanisms. The drafted law is another element of the consistent development of the civil service in public administration through the inclusion in the catalogue of special official pragmatics – a group of local government administration employees, based on the same general rules.

The reinforcement of capabilities in public administration offices

According to the Law of December 18, 1998 on Civil Service (Journal of Laws of 1999, No. 49, item 483, as amended) the Head of the Civil Service states each year the plan of central training organised for civil service. In 2003 the priority was as follows: 1) creation the ethos of government administration, 2) reinforcement of Polish government administration by implementing the standards of public management and 3) opening for citizens and improvement of the quality of services performed by the civil service corps' members. Under the Study of Strategic Management for directors general 10 sessions are planned in 2003 which are prepared in cooperation with embassies of the EU Member States and the embassy of Israel.

The aim of the Phare '99 project *Strengthening the administration and human resource to prepare for EU membership*, completed on September 20, 2002, was the development of human resources and civil service potential. Beside the Office of Civil Service (OCS), 12 pilot offices took part in realisation of this project. Within the Phare project the following actions were realised: increase in number of well educated civil service employees, capable to co-operate with the EU civil services - within the framework of the programme in the period of 2000-2002, ca 1200 persons were trained in different aspects;

- elaboration of missions of the offices taking part in the project and their strategic plans;
- elaboration and implementation of tools serving to the professional public administration functioning;
- elaboration of the *Strategy of Human Resources Management* for the civil service, which became the basis for development of the detailed *Strategies of Human Resources Management* for pilot offices;
- the role of the centre of strategy and policy of management of human resource in Polish civil service has been introduced into the OCS (continuous realisation of this task);
- the *Assessment centre* was tested (compare below);
- the practical guidebook "*Civil Service Management*" was published;
- the system of effective monitoring of quality and cohesion of staffing in pilot offices was elaborated for the OCS;
- the software for the Register of Civil Service (data bases) was developed, further works over the structure of full base continue, they depends on the Law on Civil Service amendments, which will define rules for the civil service data processing by the Chief of Civil Service and for stockpiling of the data in the register of the civil service corps' members and in the register of work places in civil service;
- The Centre of Information of Civil Service was created. It is to be useful for citizens searching for information concerning public administration. The campaign promoting and informing about civil service was conducted, as well.

A "**Friendly Administration**" **information service** has been set up, containing information about services provided to citizens by the public administration. The service is available at seven info-kiosks in Poland, procured by the Office of Civil Service under Phare'99, on the internet, and also at info-kiosk of private companies under an agreement between the Head of the Civil Service (such agreement has been signed to date with the only such a company on the market having a network of kiosks). The Friendly Administration service presents key information about all administrative procedures concerning e.g. education, training, labour, science, administration of justice, taxes and customs duties, environment and tourism or social welfare.

On the basis of the Law on Civil Service, the OCS annually conducts the **qualifying procedure** for the civil service. This year 695 persons entered for the qualifying procedure, and 633 participated in this procedure. The result to be nominated was obtained by 397 persons and the total number of nominations this year was 447. For 2004 the limit of nominations amounts to 600 persons. At the moment the number of nominated civil servants was equal to 1552.

The OCS leads **competitions on senior position** in the civil service, which aim is to choose the fairest candidates on the purpose to fulfil managerial functions in government administration. In 2003 a huge activation according to the process of filling of the senior positions in the civil service in the way of competitions was noticed. Until October 1, 2003, 143 competitions were accomplished what makes the larger number than in the whole 2002. Simultaneously, the monitoring process of the open recruitment for the corps of the civil service and the course of qualifying procedure and on methods of selections for senior position in the civil service are led. As a result of PL 99/IB/OT/1A project, implementation of a new method of assessment of candidates approaching for competitions on senior position in the civil service was initiated. The introduction of the new method of the competitions for

senior position is planned for January 2004. Implementation of the assessment centre method takes place in two stages:

- creation of the assessor's team - the target is 21 persons from different government administration offices. Two courses were organized for candidates for assessors. They concerned the selection methods and range of application of assessment centre method. The works over elaboration of the assessment centre method methodology are continued. Head of Civil Service will appoint the team until the end of 2003 year;
- elaboration of the testing methodology and tools - in 2003, two trainings for candidates for assessors were conducted. Until the end of 2003 tools testing and improvement of assessors' abilities in the range of candidates' assessment are planned.

In the scope of policy of **human resources management**, in the year 2002 the system of periodic assessment of civil servants was elaborated (The By-law of the Prime Minister of May 6, 2002 on the detailed rules for performance appraisal of the civil servants - Journal of Laws No. 69, item 633). Under works over the amendment of the Law on Civil Service, it is planned to cover with periodic assessments all of the civil service corps' members.

On October 11, 2002 the Prime Minister appointed the **Civil Service Code of Ethics** for civil service. Probably in November 2003 (taking into consideration all procedures), the realisation of the PL0101.15 project *Rising the Civil Service Awareness of Ethical Dilemmas* under the **Phare 2001** programme will start. The project will cover, *inter alia*, survey of the level of awareness of ethical dilemmas of the civil service members, carrying out 10 seminars, organisation of conferences for the political body and mass media on the subject of ethics at the end of the of the project, starting up the „chat room” in order to enable the civil service members obtaining answers and leading discussions with experts on subjects concerning ethics in administration. The main purposes of the **“Friendly Administration” Programme**, which has been carried out by the Office of Civil Service for three years, are:

- formatting the attitude and promoting the behaviours tending to meeting the clients' requirements, which are in accordance with the law, honest, on the high level of professional, interpersonal and ethical qualifications;
- improving the knowledge and competence of the staff in the government offices in capacity of professional service and creating the friendly relations with the clients;
- supporting the organisational changes; improving the system of exchanging information between the government administration and the citizens, ensuring public information about the services provided by the offices.

Within the *Friendly Administration Programme* the competition for The Most Friendly Office of Government Administration is carried out periodically. The purpose of that activity is to promote activities and organisational arrangements among government administration offices aimed to improve customer service quality and increase the satisfaction of the customers of the office. In 2003 228 offices participated.

Within the **Phare 2003** planning, in years 2004 – 2005 the Office of Civil Service will carry out the project *Strengthening the public administration capacity*. It is the continuation of the successfully finished project PL99/IB/OT/1A.

AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT

Legal, structural and organisational adjustments related to the future EU membership

Integrated Administration and Control System (IACS) is being created according to the Council regulation 3508/92/EC. In the course of works realized from the year 2000 by the Agency for Restructuring and Modernization of Agriculture (ARMA), taking into consideration changes deriving from the Single Area Payment Scheme (SAPS), the following elements are being created:

- Computerized data-base for direct payments;
- Land Parcel Identification System;
- system of identification and registration of animals;
- system for submission of applications for farmer registration number as well as of aid application for direct payments;
- integrated control system.

In consultation with the European Commission two projects are elaborated in the Ministry of Agriculture and Rural Development: *Sectoral Operational Program: Restructuring and Modernization of the Food Sector and Rural Development (SOP)* and *Rural Development Plan (RDP)*. At present, after initial comments of the European Commission, the details of particular actions are elaborated.

In connection with the planned implementation of programmes co-funded, following Poland's accession to the EU, from the European Agricultural Guidance and Guarantee Fund (EAGGF), work continues to prepare implementation institutions (Agency for Restructuring and Modernisation of Agriculture – ARMA), the Foundation of Assistance Programmes for Agriculture and Marshall Offices in the voivodships). ARMA will be the principal implementing institution. In preparation to launch the programmes, ARMA is preparing an IT system to manage certain structural measures under the SOP and is preparing for accreditation as the paying authority for measures under pillar II of the CAP within the framework Rural Development Plan (RDP).

The work is continued in **adjustment of the Polish veterinary law to the EU regulations**, which cover more than 1200 legal laws (directives, regulations, and decisions). The relevant update of 7 Polish Laws was made and dozens of executive rules were published. At present, the legislative work on issue 4 from the 5 new Laws is conducted. These laws will replace the Laws of April 24, 1997 on the eradication of animal infectious diseases, testing of slaughter animals and meat and Veterinary Inspection – the so-called “veterinary” law. The project of the Laws on the border veterinary control at present is proceeded in the European Committee of the Parliament of the Republic of Poland. The veterinary law will be in force up to May 1, 2004.

Border checkpoints are being adjusted in the range of veterinary control (11 border checkpoints).

Full harmonization of the Polish phytosanitary law with the UE regulation will take place up to the day of the accession. Beginning from the accession day the phytosanitary border control will be held at 14 border checkpoints.

The *Strategy of the Food Safety* and the *Strategy of the Food Safety Schedule* have been updated assuming several common activities of all of the inspections acting in the scope of the food safety, which are at the different stages of realization (i.e. the Program of restructuring and development of laboratory base of official food control services, National training program, National sampling program).

The Agricultural Market Agency (AMA) is continuing organisational work (including development services for technical and internal control and internal audit) and investment activities (IT systems), and preparing implementation documentation (procedures, office manuals, control cards concerning the implementation of mechanisms for market intervention, export payments, administration of foreign trade in goods). This documentation relates to the transformation of AMA into a paying agency. A law is being drafted on the responsibilities and competences of AMA as a paying agency.

The work is continued on implementation of the unified system for collection and utilization of accountancy data from agricultural holdings, compatible with *Farm Accountancy Data Network*.²⁵

In 2003 the *Integrated Agricultural Market Information System* is being implemented. On June 19, 2002 the Ministry of Agriculture and Rural Development issued the regulation on the detailed scope of data collected from 11 basic agricultural markets²⁶. The realized marketing surveys are gradually adjusted to the EU requirements, at the pace deriving from issuing the by-laws to the Law on marketing quality of agri-food products, specifying marketing standards for the particular groups.

The implementation process of the quality control system ensuring food safety is continued. The HACCP system (*Hazard Analysis and Critical Control Points*) is in force in enterprises producing dietary products and in enterprises having export rights, which process raw materials of animal origin. At present, many other food industry enterprises implement HACCP system on the voluntary basis. Upon Poland's accession to the EU the obligation to implement the system will cover all food industry enterprises.

The following Laws have been implemented regulating:

- milk and milk products market - implemented in September 6, 2001 (Journal of Laws No. 129, item 1446, as amended);
- potato starch market – implemented in January 11, 2001 (Journal of Laws No. 11, item 83);
- sugar market on the basis of the Law updated on June 21, 2001, July 18, 2002 and May 21, 2003 (Journal of Laws of 2001 No. 76, item 810, as amended); which will be in force until the day of accession. After accession the sugar market will be regulated by common law;

²⁵ The accountancy will be carried on by the representative group of the agricultural holdings (i.e. 2% - about 12-14 thousand holdings), specified by the Central Statistical Office (GUS) on the basis of the national register of agricultural holdings. Using Phare 97 funds, the farm accountancy system has been implemented in 3 pilot Voivodeships: Kujawsko-pomorskie, Mazowieckie and Pomorskie. Within Phare 2000, the above-mentioned system is being implemented in further 3 Voivodeships: Dolnoslaskie, Malopolskie and Zachodniopomorskie. Realisation of the project will be completed in October 2003. Within a framework 2001 implementation of the system in further 10 Voivodeships is planned.

²⁶ (Journal of Laws No. 86, item 781)

- fruit and vegetable market, hop market, tobacco market and dried fodder market – implemented on November 29, 2000 (Journal of Laws of 2001 No. 3, item 19 , as amended);
- spirit drinks market – implemented in September 13, 2002 (Journal of Laws No. 166, item 1362);
- market of production and bottling of wine products and trade of these products – implemented in July 25, 2001 (Journal of Laws No. 128, item 1401); Project by-law according market of production and bottling of wine products and trade of these products and market organization of wine sector is being revised. Draft project by-law on this has been delivered to the Parliament in October 7, 2003.
- processed fruit and vegetable market – implemented in July 27, 2002 (Journal of Laws No. 50, item 1238);
- some agricultural markets – implemented in December 20, 2002 (concerning cereals, oilseeds, hop and tobacco) (Journal of Laws No. 240, item 2059);
- fisheries market – implemented in October 10, 2002 (Journal of Laws No. 181, item 1514).

Fisheries

Adjustment of the Polish legislation to the EU regulations was done. On February 13, 2002, the Law of September 6, 2001 on sea fishery entered into force (Journal of Laws No. 129, item 1441, as amended). This Law introduced into the Polish law the solutions included in Commune Fishery Policy. All executive laws to this Law were introduced.

A draft of the new law on fisheries has been prepared (the law will come into force upon accession). Without repeating the provisions of EU Regulations, the law will make it possible to implement the stipulations contained in the applicable Regulations and establish legal and organizational structures and enforcement mechanisms for those Regulations in Poland.

On February 1, 2003 the Law of October 10, 2002 on the organization of fish market and on amendments to the sea fishery law entered into force specifying i.e. legislative framework for the creation and operation of fish producers organizations and interbranch organizations, rules for marketing of fishery products.

Realization of the structural policy in the fisheries sector is concentrating first of all on the preparation to:

- ❖ reinforcing central and local fishery administration in connection with new obligations deriving from the law (statistics, fishing vessel register, satellite-based vessel monitoring systems);
- ❖ reinforcing the control of catches (catches licenses, introducing catches documentation required by the law, transport, technical fishery protection);
- ❖ Preparing and strengthening the administration structures and the implementing institution to implement the Sectoral Operational Programme – *Fisheries and Fish Processing for 2004-2006*, under the *Financial Instrument for Fisheries Guidance (FIFG)*.

Rural Development

The assistance to the economic activity in rural areas is continued by co-financing from the *Rural Areas Activation Program* (World Bank credit amounting to EUR 118.8 million with Polish co-financing) of creation of the new work places in rural areas, development of the infrastructure in rural areas and improvement of the education. Investments concerning development of rural sewage system, construction of gminas and poviat roads, rural water supply systems and wastes dumping. Within this program the activities are realized improving conditions and level of teaching at primary schools and gymnasiums on the rural areas. Beginning from the second part of 2002 the system of micro credits launched enabling starting or continuation of the non-agricultural activity in rural areas.

Assistance for creation of new, stable work places is continued by the ARMA through:

- subsidies to credits contracted for the investment activity creating stable work places in rural gminas and rural-city gminas guaranteeing employment of the rural population,
- no interest loans intended for legal and physical persons carrying out or undertaking business activity outside agriculture within the program of small entrepreneurship,
- subsidies to the basic investment credits, including financial assistance to agro-tourism in agriculture holdings and to undertakings in agri-food processing and services for agriculture,
- financing of the undertakings in the range of improving or changing vocational qualifications of rural area inhabitants.

INFRASTRUCTURE

One of the objectives of the programme on *Infrastructure – A Key to Development* (contained in the Government's Economic Strategy of *Entrepreneurship–Development–Work*) is to construction more dynamic, in particular housing, develop communications and the information society.

Housing

According to the findings of the National Population and Housing Census of 2002, Poland, with the index of 308 flats inhabited per 1000 inhabitants, takes one of the last places in Europe. The shortage of flats in Poland amounts to ca 1,5 million. Moreover it is estimated that until 2010 ca 1 million of flats should be destroyed because of condition and safety risk.

Effects of housing

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
New flats per 1000 inhabitants	3,5	2,5	2,0	1,7	1,6	1,9	2,1	2,1	2,3	2,7	2,6

Source: data of CSO

Despite the low level of average household income, a decisive majority of apartments now constructed are owner-occupied. Housing for rent or co-operative housing co-financed by the National Housing Fund (a programme introduced in 1995) now constitutes approx. 10% of the total output of housing construction. The low proportion of tenement housing does not reflect the income structure of the Polish society, and contributes additionally to restricting the geographical mobility of labour. A principal barrier restricting demand on the market of new apartments is certainly the high disproportion between the income of prospective buyers and the relatively high prices of apartments.

In order to create the real demand in this area of economy certain steps were taken in 2003:

- the system of the inexpensive long-term housing credits at the fixed interest rate has been launched. The concept of this program, described in the Governmental Economical Strategy Enterprise-Development-Work, has been changed. According to the assumptions, the program bases on the system of subsidies to the interest rates of credits granted by commercial banks, subsidies are granted from the fund created in the Bank Gospodarstwa Krajowego. The Subsidy Fund is based on the annual donation from the state budget. Preferential housing credits will be granted until the end of 2005;
- activities supporting development of the social housing rental have been undertaken;
- the fixed level of financing of the social rental housing from the state budget has been assured in the strategy adopted in 2002;
- the extensive utilization of international financial institutions credit lines is promoted (these loans will be utilized gradually and will compose the essential element of the financial plan of the National Housing Found in 2003 and in successive years;
- by decision of the Government, the Bank Gospodarstwa Krajowego was capitalized through contribution of Polish Television joint stock company shares worth PLN 530 million belonging to the State Treasury,

- on June 10, 2002 the minister of finance issued the by-law on utilizing subsidies from the National Housing Found (Journal of Laws No. 81, item 734), giving the Bank Gospodarstwa Krajowego the legal basis for selling liabilities arising from credits granted from the National Housing Found to mortgage banks;
- the activities are implementing already passed Laws, including two legal laws which entered into force on July 11, 2003 – the Law of March 27, 2003 on planning and land development (Journal of Laws No. 80, item 717), the Law of March 27, 2003 on amendment of the Law - Building Law (Journal of Laws No. 80, item 718) continued. New solutions eliminate identified administrative barriers in building industry.

Since the beginning of the 1990s, there have been no solutions in Poland to support municipalities in the construction or acquisition of apartments for the poorest people. The problem concerns social and temporary housing for people who are in an extremely difficult situation including, above all, the homeless. In the case of replacement social housing, its shortage in municipalities is an additional factor restricting the scale of other projects on the housing market since, for example, the construction by private persons of apartments for rent involves too high a risk relating to the impossibility on the part of the municipality to find replacement housing for an unreliable tenant. In that regard, systemic solutions are planned to be introduced already in 2004 to increase the possibilities of funding the construction or acquisition of social housing by municipalities. Work is currently under way on the preparation of the relevant by-laws.

Detailed housing programmes notwithstanding, a major part of sectoral measures refers to the regulatory environment on the construction and housing markets. Regulatory changes should favour the elimination of administrative barriers identified and improve investment conditions, thus helping reduce the costs of housing projects, including costs borne by the end-users of apartments. Implementing measures are now being continued in that very direction, parliamentary laws have been passed and came into force on July 11, 2003:

- ❖ the Law on spatial planning and land management,
- ❖ the amendment to the Building Law.

As a result of negotiations, Poland also obtained the right to apply, during the transition period, the 7% VAT rate to housing (upon Poland's accession to the EU until the end of 2007) for the sale of new apartments, construction and repair work. For that purpose, a new law has been drafted at the Ministry of Finance on the tax on goods and services, containing proposals for the relevant by-laws.

Transport

Proposals of solutions in the area of infrastructure submitted this year are aimed at the evolution of the existing transport system in order to introduce new technical, organizational and legal resolutions based on the maximum utilization of the property possessed. As a result, Poland's territory accessibility will improve along with tightening of its regions links with EU.

In order to harmonize Polish legislation with the EU one, various Laws were modified, especially those concerning:

- the Law of March 28, 2003 on railways transport (Journal of Laws No. 86, item 789, as amended),
- the Law of September 8, 2000 on restructuring, commercialization and privatization of the Polish State Railways (PKP) enterprise (Journal of Laws No. 84, item 948, as amended),

- the Law of September 6, 2001 on road transport (Journal of Laws No. 125, item 1371, as amended),

The Laws implement provisions of the relevant Council directives and regulations in the scope of the railways and road transport development and functioning.

Changes of the transport law are being followed by the relevant institutional changes. The Railways Transport Office is operating from June 2003.

The State will take actions to diversify the financing sources of the program of highways building, modernization and building of expressway and will enable efficient start of the new projects. Those goals should be attained through new legislative solutions. Namely:

- the Law of April 10, 2003 on detailed rules for investments in the range of national roads preparation and realization (Journal of Laws No. 80, item 721),
- the Law of November 14, 2003 on amendment to the law on paid motorways (it is about to be signed by President).

The results of these activities will be (to be attained until the end of 2006): construction or comprehensive reconstruction of 415 km of motorways, construction of 213 km of expressways, construction of 35 ring roads of the total length of 177 km, adaptation of 481 km of roads to the loads of 11.5 t/ axle (EU standard).

Expected results of road network construction:

- employment recovery during investment plan execution,
- maintained economic revival in voivodeship, through which the new roads run,
- increased attractiveness of the areas for investors, encouraging localization of investment,
- lower costs of economic activity for enterprises and an increase of their competitiveness.

Railways infrastructure will be gradually opened for competition enabling companies holding carrier license to enter the market. As the result, railway transport should become more efficient. The strategic goal is to increase competitiveness of the railway transport and sustainable development of the transport system. The Polish State Railways Joint Stock Company and depended companies restructuring and privatization is being continued.

Results of the program to be attained until to the end of 2007:

- improvement of the national transport system; increased access to high quality railway transport services due to extended capacity of trains and higher speeds reducing the length of journey; reduction of the harmful impact on the environment,
- lower costs of railway transport including lower costs of railway infrastructure exploitation and maintenance; increased attractiveness of railway transport in relation to other means of transport resulting from cheaper access to the railway infrastructure,
- integration with the European railway system (reaching EU technical standards) and the reduction of technical and technological distance with relation to leading Railways,
- development of the railway technical base.

In order to improve sea ports infrastructure and facilitate the access to the sea ports from the sea and land, the following actions are to be conducted:

- port wharfs and wet docks modernization and construction,
- container terminals and logistic centers infrastructure construction,

- Modernization of roads and railways at the territory of sea ports,
- installation of equipment enabling cargo wastes and rests from ships receiving.
- modernization of waterways, breakwaters and entries to the ports
- construction of the system of operational communications and monitoring the rescue units (for all ports)
- creating of the national system of security for sea navigation
- the amendment of rail and road ways to sea ports

The Law on **Inland Shipping Fund and Reserve Fund** creates conditions for the promotion of inland shipping as the most environment friendly transport branch. Moreover, the law should to an increase in safety of shipping and reinforce an ability to compete on the national and European markets. Financial resources from the Inland Shipping Fund will be allocated, *inter alia*, for modernisation of ships and restructuring of inland navigation enterprises, payments to ship owners for permanent exclusion of ships from exploitation.

Tasks relating to the operation and liberalization of services in **air transport** are co-ordinated by the Civil Aviation Office (CAO) under the Law of July 3, 2002 on the aviation law (Journal of Laws, No. 130, item 1112), which includes the following important objectives in the development of air transport:

- ❖ ensuring Polish entities engaging in operations in civil aviation conditions for the maintenance and development of a competitive position on the Polish and European markets, in compliance with non-discrimination principles and respect for Poland's international obligations;
- ❖ increasing the accessibility of air transport through activities supporting the development of air connections adapted to various market segments, ensuring adequate throughput of infrastructure, optimisation of air transport, and through a tariff policy based on free play of market forces and support for fair competition.

In view of the fact that the liberalisation of the air transport services market will lead to increased interest in both domestic and international air travel, increased passenger traffic can be expected at airports, which will involve the need to invest in airport infrastructure. In view of the foregoing, co-ordination teams are to be set up to work on the cohesion of a programme for the development of civil airports with the domestic transport network and co-operation with regions in developing regional airports. State aid to regional airports is possible upon the terms set out in the Aviation Law. With the active collaboration of local governments and regional authorities, opportunities will also be created for involving private and foreign capital in civil aviation projects.

Currently, the most urgent investment in airport infrastructure is the construction of Passenger Terminal II at the Warsaw–Okęcie Airport. With the completion of the project, the total throughput of the airport is expected to increase from 3.5 to 10 million passengers each year. In accordance with the “Information about the Directions of Development of Civil Aviation in Poland to 2010” the attaining in 2010 of the limit throughput of Warsaw–Okęcie Airport with the option of the variant of non-extension of runways there, justifies the construction of a new airport for Warsaw. The Civil Aviation Office has prepared a document entitled “Strategy for the Financing of the Air Transport Infrastructure in Poland to 2010”.

Telecommunications infrastructure

At the end of 2002²⁷ the number of primary lines (primary lines = users of cable telephony + ISDN links) at public cable telephony network embraced 11,7 million (an increase by 2,8% in comparison to 2001), including – 8,9 million (an increase by 1,8%) in cities and 2,8 million in rural areas (an increase by 5,9%). There were 30,72% connections per 100 of habitants in Poland. The dynamic development of cell telecommunication (13,9 million users in 2002 i.e. 36,4 per 100 inhabitants) only partly compensates shortages of the stationary telephony.

Measures concerning the development policy in telecommunications, which aim to further liberalize the telecommunications services market and increase access to telephone services and the internet, particularly in weakly urbanized areas, and reduce differences between particular regions of Poland, concentrate on the following areas:

- ❖ Harmonisation of the telecommunications law with European legislation

The Law of May 22, 2003 on the amendment to the Law on telecommunications law and the amendment of certain laws (Journal of Laws No. 113, item 1070) has led to the harmonisation of that law with EU regulations (implementation of a package of Directives of 1998) and, in particular: the definition of a universal service, conditions for the provision of universal services, transferability of numbers, choice of operator, and access to subscriber loop.

On the basis of the provisions of the Law on telecommunications services, since January 1, 2002, potential operators may freely apply for permits enabling them to provide local and long-distance telephone services and, since January 1, 2003, the market of international connections has also been released.

In July 2003, a new package of EU Directives came into force concerning telecommunications and electronic communications (Directives No. 2002/19, 2002/20, 2002/21, 2002/22 and 2002/58). Upon Poland's accession to the EU, those Directives will have to be implemented in Polish law.

- ❖ Solving the problem of concession obligations on stationary operators of public telecommunication networks.

The problem of restructuring concession obligations resulting from concession charges of stationary telephony operators to the State Treasury will be solved by the Law of November 23, 2002 on restructuring concession obligations of public telecommunication network stationary operators (Journal of Laws No. 233, item 1956).

- ❖ Promoting the development of local telecommunications infrastructure with the use of public/private partnership.

- ❖ Implementation of PHARE projects.

During 2003-2005, the Ministry of Infrastructure together with the Office for the By-law of Telecommunications and Posts will be a beneficiary of the PHARE project on the new EU regulatory framework for electronic communications whose principal objective is to adapt Polish by-laws to EU requirements concerning electronic communications and ensuring the effective implementation of the *acquis communautaire* in that field.

²⁷ Source: CSO "Łączność – wyniki działalności w 2002 r." (The communication – results of activity in 2002)

OTHER REFORMS

PENSION SYSTEM

The new pension scheme, introduced in 1999, is composed of obligatory and voluntary parts. The obligatory part consists of two elements: public - repartition, which operates on the basis of *notional-defined contribution*, (serviced by the Social Insurance Institution - ZUS) and investment part with obligatory contributions is transferred to open pension funds (OPF). The voluntary part operates as employee group pension schemes, under State supervision, and as individual forms of old-age security.

The implementation of the system of servicing accounts and funds was continued in 2002. This system constitutes the basic elements of comprehensive computer system in the ZUS for the purpose of the individual pensions accounts servicing. In 2002 the by-laws were introduced in order to improve administration of the system, both by employers and the ZUS.

Moreover, the Law of October 30, 2002 r. on social insurance regarding industrial accidents and occupational diseases was adopted (Journal of Laws, No. 199, item 1673, as amended). It concerns persons covered by the accident insurance and includes by-laws concerning, *inter alia*, rules of differencing the rate of accident insurance premium depending on occupational hazards and their effects, types of pensions granted in consecutive industrial accidents or occupational diseases, conditions for acquiring entitlement to such pensions, rules and mode of granting pensions, setting the amount and rules of payment.

Activities concerning the pension system reform planned for forthcoming years will cover the legislative and administrative spheres. Regarding legislation, the work on the Laws complementing the existing package of Laws connected with the pension system reform is continued: the Law on lifelong pensions, the Law on bridge pensions and the Law on the national actuary. In the long-term perspective there are plans to equalize the situation of women and men in the pension system.

The Laws on social insurance and on organization and functioning of pension funds will also be amended in order to simplify the existing system of data transfer as well as to strengthen the role and increase the allocation of member contributions to open pension funds. Till the end of the first quarter of 2004 the system of individual pension accounts is to be introduced and the system of employee group pension schemes is to be amended.

The main administrative activities include organizational changes within ZUS, connected with implementation of the adopted strategy, as well as the completing informatisation process. In particular, in 2003 the insured persons should receive the information on the level of their pension accounts in the first pillar. Completion of the information system implementation will allow for increasing the effectiveness of transferring current contributions to pension funds, as well as gradual reduction of outstanding amounts. The work on calculating the initial capital for persons insured before the introduction of the pension reform, is in progress.

HEALTH CARE

The by-laws of the Law dated January 23, 2003 on the general insurance in the National Health Fund, entered into force on April 1, 2003 (Journal of Laws, No. 45, item 391, as amended). For realization of tasks specified in the National Health Care program the institutional and legal changes were introduced.

To realize tasks resulting from Community rules on co-ordination of social protection systems in the scope of material health services it is indispensable to prepare health protection system/general health insurance system to the realization of these tasks in the aspect of change of the binding law, introduction institutional and organizational changes. This task is included in the scope of work connected with realization of tasks deriving from the *National Program of Preparation for Membership in the EU*. The basic aim of the program is preparation and implementation of the organizational structure (including adjustment of the employment structure) adequate for realization of tasks in the range of: confirmation (and allocation) of right to the material health services, providing such services, financing and accounting of costs, as well as collecting, processing and exchanging of data in the scope mentioned above. In order to this basic objective the following are required:

- specification of the source and subject of financing health services provided to persons entitled, within the framework of the co-ordination of social protection systems and elaboration of financing procedures for liabilities, which will arise as the result of application of the Community regulations,
- estimation of costs which will result from application of Community regulations; identification of possible financial threats for the Polish health care system in the connection with need to repay (growing) international obligations, along with indication how to counter such threats,
- adjustment of statistics in the range of health services costs for particular groups of insured persons, enabling the calculation of lump sums used in mutual settlements with EU countries,
- training for personnel of institutions participating in the process of co-ordination of social protection systems,
- elaboration of draft amendments to the Law on National Health Fund general insurance and, depending on needs, to the other regulations connected with health protection.

Realization of the above objective requires the following:

- introduction of institutional and organizational changes - the International Settlements Office will be included in the structures of the National Health Fund. Inclusion of the Office to the structures of the Fund is connected with adjustment of the mutual financial clearings system between EU Member States on account of health services. The difficult situation of the health care system results mainly from lack of adjustment to the supply of and demand for health services. In this situation reducing of the revenue side of the system by dues from clearings between EU Member States is impossible,
- the National Health Fund needs to assume new tasks, including financing and clearing of health care costs incurred by insured persons abroad, financing health care costs for UE citizens on the territory of Poland, and clearing the costs of these services with liaison institutions,
- starting from 2004 – establishment of the state budget objective reserve from for financing of two mentioned above tasks,
- introduction of changes to the Law of January 23, 2003 and to executive by-laws (possibly elaboration of new by-laws) in the range of:
 - subordination to health insurance on the territory of the Republic of Poland;
 - payment of the health insurance contribution;

- directing the insured person for medical treatment/diagnostic examination to a EU member state other than the Republic of Poland; supply of medical products, orthopedic appliances and aid means for persons not subject to general health insurance on the territory of the Republic of Poland;
- issuing of forms and certificates about entitlement to the material health services; collecting and processing personal data of persons included in the system of co-ordination of social security systems;
- indicating in the Law the source and subject of financing services rendered in Poland for the benefit of persons covered by the co-ordination of social security systems, indicating in the Law the source and subject of financing of services rendered in EU member states for benefit of persons subject to the general health insurance on the territory of the Republic of Poland;
- specifying rules, deadlines and mode of clearing costs of the material services rendered to persons covered by the health insurance systems subject to coordination;
- specifying how financial means and data will be transferred between the National Health Fund and service providers.

Expected qualitative and quantitative results of the projected activities:

- adjustment of the binding legal regulations with the aim to establish legal bases for realization of the above mentioned tasks,
- establishment of well organized, efficient structures within the general health insurance system, capable of realizing tasks resulting from the Community rules on co-ordination of social protection systems in the range of material medical services.

At the moment the work on projects of following Laws are conducted:

- The Law on changing the Law on health care facilities and the regulations introducing that Law,
- The Law on state aid and restructuring public health facilities and on the guarantees and securities of the State and some legal entities and the regulations introducing that Law
- The self-amendment of the project on Law on public aid and restructuring of public health facilities and on change of the law on guarantees and securities given by The state and some legal entities

EDUCATION AND HIGHER SCHOOLS

Education reform is one of the tools for the implementation of strategic objectives specified in the *Pre-accession Economic Programme 2001*. Positive development trends initiated during the profound systemic changes at the beginning of the 1990s continue. Indicators describing general access to education, society's education attainment level, the provision of computer equipment to schools and internet access have increased. Indices relating to society's level of education in the 25-64 age group and the provision of computer equipment to schools differ from the standards of highly developed countries and, therefore, action aimed at their improvement will be intensified. It should be concluded, however, that during the period from 1999 (the 4th quarter) to 2003 (the 1st quarter), the educational level in the 25-34 age group increased by 5,7 percentage points – from 13,5% to 19,2%.

Rural areas have experienced the highest increase in computer assets in schools in the comparable periods (school year 2001/2002 to 2002/2003) for all types of indicators. Activities in that regard will continue.²⁸

Since 1999, a comprehensive reform of the education system has been implemented²⁹, as a result of which changes have been introduced on parallel in: the structure of school education system as well as school network, educational curricula, evaluation, examination and assessment system, school management and inspection system, the professional status of teachers and the system of their education and in-service training.

The principal objective of the changes is to improve educational attainment level of the society through the wider access and participation in educational and training programmes with a simultaneous improvement of its quality. Activities are being undertaken concerning:

Rising the education attainment level of the society

- promotion of higher-level education: an increase of four times in the number of students has been noted – from 0.4 million in 1990 to 1.8 million in 2003,
- promotion of secondary-level education, completed with secondary school final examinations (Matura): the percentage of youth in the new network of secondary schools has increased from 46% in 1990 to 86% 2003,
- introduction of the obligation of pre-school preparation of one year for six-year-olds and providing five-year-olds with the right to pre-school preparation (the act will come into force in 2004),
- promotion of life-long learning.

Improvement of the quality and effectiveness of education

A. Compulsory (primary schools, gymnasias) and upper secondary education:

- educational standards, core curricula, have been introduced for pre-school and schools of general education have been introduced;
- the first examination requirement standards, the external evaluation system, have been introduced
- the Central Examination Board (1-01-1999) and eight Regional Examination Boards have been established. Their tasks include, among others, the preparation and improvement of the external examinations system, the development of examination standards, determination of nationally uniform sets for tests and examinations for the given level of education for the given school year.

B. Higher education:

- educational standards for particular fields of studies are being developed by the General Council for Higher Education. The current standards are in place for 72 directions of master-degree (magister) studies and 35 higher vocational studies. Work continues on improving standards for the remaining directions of studies (the full list comprises 105 directions).

²⁸ The computer resources according to the location of school and its type are presented in Table 4 and 5 in the Annex

²⁹ Based on the amended acts on the system of education, higher school education and higher vocational schools, the Teacher's Charter. The new school system was introduced by the act on the regulations introducing the school system reform.

- implementation of a system of external evaluation higher education schools (accreditation):

In 2001, the State Accreditation Commission (SAC) was established, which is a statutory body for higher education acting to the benefit of the quality of education in all Polish schools of higher education – both state-owned, private, academic and vocational ones. SAC's responsibilities include, among others, consulting applications for the establishment of new directions of studies, awarding right to the higher education institution to award the master-degree level, evaluation of the quality of education and control the fulfilment of requirements for running higher education studies.

C. Improvement of teachers' qualifications: implementation of a system of professional promotion of teachers and a new remuneration system and promotion of forms of in-service teacher training.

D. Modernisation of life-long learning and the counselling system, including vocational counselling,

Providing for equal educational opportunities

- optimisation of the school network, particularly in rural areas
- organization of transport to schools, particularly in rural areas
- enhancing financial support in the form of grants to pupils
 - promotion of health and preventive programmes in schools, increasing the number of hours of physical education and the number of extra-curricular activities,
 - promotion of integration of children with special educational needs, programmes of early intervention and early support to children.
 - introduction of a uniform system of providing social welfare allowances and comprising in these allowances students of all forms of higher education and development of the system of student loans.

Development of IT education

In November 2000, the Council of Ministers adopted a document on the *Objectives and Directions of Development of the Information Society in Poland*, which defines priorities for the development of the information society in Poland and measures necessary for their attainment. Priorities include *inter alia* general access to information and IT education. An important document concerning the information society is also the governmental document adopted by the Council of Ministers in 2001 "ePoland – The Action Plan for the Information Society Development in Poland for the years 2001-2006".

Due to the need to precisely define the legislative, institutional and structural measures to develop that area, a new priority has been included in the National Program of Preparation for Membership in the European Union, (2001), namely: Development of the Information Society in Poland.

The above objective is pursued in the educational system *inter alia* through computerization of schools and providing access to the Internet.

ENVIRONMENT

Consistent realization of *The First National Environmental Policy*, adopted by the Parliament in May 1991, enabled a significant improvement in the state of natural environment.

Accordingly, the level of air and water pollutants has decreased, the areas embraced by the legal protection have increased, and accession to the number of international ecological conventions has been decided.

The index of the environment

	1998	2000	2000/1998
Emissions of SO ₂ (in thousands tons)	1897	1511	-20%
Emissions of CO ₂ (in thousands tons)	991	838	-15%
Emissions of CO ₂ (in thousands tons)	338095	314812	-7%
The amount of sewage requiring cleaning transmitted to surface water (in hectometers ³)	2801,9	2402,4 ¹⁾	-14%
The terrains with a particular features natural protected by Law (in thousands hectares)	9718	10336 ¹⁾	6%

1) data for 2001

The Conventions, Protocols and Agreements concerning protection of natural environment ratified or signed by Poland in 2002

Conventions and agreements ratified by Poland	Date of signature	Date of ratification
The Kyoto Protocol		13.12.2002.
The III/1 Amendment to Basel convention, concerning the prohibition of export of waste different to those countries specified in Annex VII to Convention (Ban amendment)		05.07.2002.

Because of the long-standing negligence, the state of the environment is far from desirable. This forces to acceleration of activities in some areas of environmental protection. Despite the evident backwardness, the indicator of the waste water treatment plants services has increased up to 55% of the total population of the country (including 12.5% of rural population). More than 300-400 big waste water treatment plants are opened annually and the sewage system is intensively developed, rapidly improving still unsatisfactory purity of the rivers. Poland belongs to the countries of the highest industrial waste production, too. Waste disposal to landfills is still the primary way of municipal waste management in Poland.

In August 2001 the basis of II Ecological Policy were accepted by Sejm³⁰. The goals there mentioned concern the need of accommodating Polish system of management of environment to UE's rules. The first stage - is to be realized till 2003 (and it's a short, pre-accession term), the second stage is to be realized till 2010 – and it's a medium-term goal, being in accordance with The Sixth European Union's Environmental Protection Program, the last goal is to be realized as long-term goal till 2025.

In the *Implementation Program to the Second National Environmental Policy* and in the *National Environmental Policy 2003-2006 with 2007-2010 Perspective*, elaborated by the Government according to the Environmental Protection Law of April 27, 2001, the activities and packages of investments and non-investment tasks were specified, serving to the realization of short-and-medium term priorities. Also the deadlines for their realization and indispensable expenditure on the environmental policy for 2002-2010 were specified in the scope of rationalization of natural resources exploitation and improvement of environmental quality. This is strongly connected with implementation of the EU regulations to the Polish environmental protection system.

³⁰ Accepted by The Government in June 2001 and by Sejm in August 2001.

THE FINANCIAL MARKET

Intensive legislative work on the adjustment of the Polish legal framework on capital market to the solutions provided for in Community directives are fully consistent with the assumptions of the Financial Services Action Plan (FSAP) and Risk Capital Action Plan (RCAP), whose strategic goal is to establish a single market for capital flows within the European Union. Poland, with its active observer status, may also exercise some influence on the *acquis communautaire* that is still being developed under FSAP. The new provisions will be gradually incorporated also into the Polish legal system.

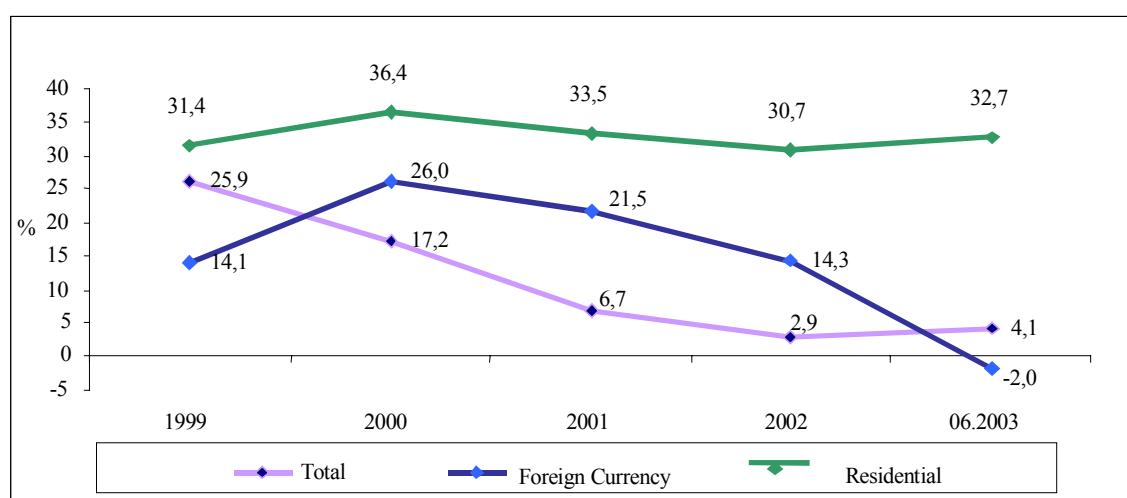
BANKING SYSTEM

At the end of June 2003, there were 56 commercial banks operating in the Polish market (including 1 branch of a foreign bank). Giving the ownership structure of the system is dominated by private banks. The State Treasury controls 7 banks (of which 3 directly) representing some 25.3% of the sector's assets. The Polish banking sector also features high capital holdings owned by foreign banks, specially by those based in the EU.

Additionally, there were 601 cooperative banks operating in Poland which were affiliated within three affiliating banks, and there were 2 banks operating outside affiliating structures. On July 14, 2003, the Law on the Operations of Cooperative Banks, their Affiliation and Affiliating Banks was amended. The provisions of this law offer cooperative banks additional possibilities for expanding their capital base and allow further capital strengthening of the sector.

Over the last twelve years, significant changes have taken place in the banking sector. Still, the ratio of loans to GDP is four times lower in Poland than the average for euro area countries. Relatively high loan interest rates in Poland is attributable, among other things, to the risk barrier related to the limited creditworthiness of the applicants and to a fairly high proportion of irregular loans.

Chart 1. Growth in loans extended by commercial banks to non-financial sector



Source: NBP

In the context of Poland's EU accession, the banks will face a challenge of lowering their currently relatively high operating costs (as compared to banking systems in EU countries).

From the point of view of the requirements for EU membership, the process of harmonizing the Polish banking legislation with the *acquis communautaire* has been completed. The aim of the legislative process currently under way is to preserve the competitiveness of the Polish banks in the prospect of their participation in EU Internal Market after Poland's accession to the EU. Major draft changes envisaged for the Banking Law governing outsourcing and securitisation should considerably improve the functioning of the entire banking sector.

At present, work is continued on amending the Banking Law. It will result in the revision of some of its provisions to allow better harmonization with EU legislation. Additionally, the Bankruptcy and Rehabilitation Law of February 28, 2003, came into force on October 1, 2003. It enforced most provisions of Directive 2001/24 of the European Parliament and Council of April 4, 2001, on the reorganization and liquidation of credit institutions. The remaining part of the directive will be incorporated into the Polish legal framework under the current amendments of the Banking Law to take effect on January 1, 2004 as scheduled.

Legislation on consolidated banking supervision has been in force in Poland since 2001. It has been implemented into supervisory practice and allows effective supervision in the context of the opening of the Polish banking sector to the competition of banking entities from EU countries.

As far as the payment system is concerned, the Law of September 12, 2002, on Electronic Payment Instruments has recently been enacted together with the Minister of Finance's regulations designed to implement relevant EU legislation. There is only one more provision in the Law on Economic Activity which has not yet been enacted, namely that related to the execution of cross-border money transfers. The draft provision was prepared whilst developing amendments to the Banking Law. Recently, the regulation of the Minister of Finance has also been published, on the execution of cross-border money transfers. It will come into force on the day of Poland's accession to the EU.

Additionally, legislative work is under way on the Law on Certain Forms of Financial Collaterals. Its purpose is to incorporate into the Polish law the provisions of the Directive of the European Parliament and the Council 2002/47/EC on the principles for establishing and executing financial collateral.

In 2003, work was continued on setting up greater regulatory transparency across the entire sector. Among other things, the regulation of the Commission for Banking Supervision (CBS) 5/2001 on the capital adequacy of banks has been amended, and, following the entry into force of the amendments to the Banking Law, the CBS will implement necessary adjustment of the regulations on capital adequacy to bring them into line with the revised provisions of the Law. In June 2003, new approaches have been adopted regarding the provisions on banks' large exposure limits.

An urgent challenge for regulatory bodies in the financial sector is the incorporation into the Polish legal framework of the provisions of the Directive 2002/87/EC on supplementary supervision of financial conglomerates, in accordance with the implementation timetable provided for in the directive.

With respect to the banking sector, a key element of the Financial Services Action Plan (FSAP) of the European Commission is the development and implementation of the CAD III Directive. Polish banking supervision is currently analyzing the New Capital Accord (Basle 2) drafted by the Basle Committee. Basle 2 is expected to significantly affect the condition of the banking sector – through transposition of the CAD III Directive to the national legal system.

The new directive will tighten requirements regarding the handling by the banks of the information on risk incurred and ways of managing it, while enhancing the transparency of the financial market at the same time. Meanwhile, the adoption of the Basle 2 principles should clearly improve the quality of the risk-management process in the Polish banks and should raise the quality of off-site examination (upgrading the balance between required regulatory capital and actually incurred risk). The CAD III implementation should improve the safety of the banking system.

Another challenge resulting from the integration of the EU financial sector and incorporation of the Polish banking sector into the Internal Market, both in terms of international relations and the condition of the Polish banking sector, is an operating risk, which is becoming increasingly important in the process of bank management. The importance of operational risk, its monitoring and regulation of the aspects related to its mitigation is gradually gaining more and more relevance.

A new impetus in this respect was provided by the attempt to include operational risk in the capital adequacy account reflected in the New Capital Accord. The Polish banking supervision has embarked on initial analyses of this issue and undertaken measures aimed at introducing a recommendation concerning operational risk management. The publication of the recommendation is expected in the first half of 2004.

At the same time, the Polish banking supervision has initiated work on draft amendments to the principles on loan classification and provisioning. Regulatory changes in this area bring Polish legislation closer to international practices.

In the context of the operating requirements for the banking sector in a common European market, development of supervisory co-operation, both at national level – with the institutions overseeing other sectors of the financial market, and the international level, is a crucial area of activity of the banking supervision. From the point of view of the effectiveness of supervision over the financial sector and the guaranteeing of the efficient operation of the internal market, and, specially, securing proper monitoring of the security of capital groups, the Polish supervision has resolved to provide foreign banking supervision agencies with information on the financial standing and risks associated with the banks – subsidiaries of the banks having their registered offices in the jurisdiction of these states. As of 2002, the General Inspectorate for Banking Supervision (GIBS) has received the so-called information-visits of supervisors from the EU countries in the course of which it discloses detailed information regarding banks' assets and our internal rating. Besides these, on a number of occasions banking supervision has provided foreign supervision agencies with other information important in terms of supervision over capital groups. At the same time, the Polish banking supervision has requested its partners to deliver information on parent banks. In the context of information sharing between the Polish supervision and foreign supervisors, it is necessary to explain that following each comprehensive on-site inspection carried out by the Polish supervision, the supervisory body of the foreign bank with branches or subsidiaries in Poland is notified in writing of the findings of such on-site inspections.

The challenges identified in the area of banking include:

- Enhancing the banks' operating effectiveness,
- Containing irregular loans' growth,
- Further improving of risk management, especially that of credit risk,
- Expanding product offer and ensuring higher quality of services provided,
- Lowering the relatively high level of the banks' operating costs.

MORTGAGE BANKING

On September 9, 2002, a significant amendment of the Law of August 29, 1997, on mortgage covered bonds (pfandbrief) and mortgage banks came into force. It considerably liberalized the limits within which mortgage banks had been operating previously: it raised the maximum volume of a single credit facility collateralized by a mortgage from 80% to 100% of the mortgage lending value of the property, it raised the total amount of the bank's claims on collateralized loans granted against a mortgage and of primary claims purchased from other banks on loans granted by them and collateralized by mortgage, to a portion exceeding 60% of the mortgage lending value of the property from 10% to 30% of the total amount of a mortgage bank's claims collateralized by mortgage. This amendment expanded the possibilities of refinancing core activity from additional sources, other than mortgage covered bonds, establishing that the amount of liabilities resulting from granted credit and claims purchased from other banks cannot exceed ten times the amount of the bank's own capital during the initial five years of its operational activity and six times the amount of its own capital as of the expiry of this period, and not as had previously been the case – twice the amount of the mortgage bank's own capital. This law also provided mortgage banks with a number of new options for expanding their operations, including primarily: granting loans to local government institutions, either endorsed or guaranteed by these institutions, and issuing on its basis public mortgage covered bonds, operating bank accounts for servicing investment projects executed using the credit granted by the mortgage bank, providing consulting and advisory services related to the real estate market, managing the claims of the mortgage bank and other banks on mortgage loans, as well as granting such loans on behalf of other banks under agreements concluded with them. A material amendment forced by the time-consuming mortgage registration proceedings in Poland was also intended to enable a mortgage bank to disburse credit funds prior to the establishment of the mortgage securing their repayment.

As a result of the above amendments to the law, first of all, the operation of mortgage banks in Poland was rendered more efficient through ensuring easier and wider access to sources of financing, and mortgage banks were given an opportunity to develop a more competitive credit offer for financing real estate property than before.

CAPITAL MARKET

An efficient capital market covering both medium and long-term credit facilities combined with the official stock exchange listing and over the counter markets for trading securities creates the basis for an effective mechanism of resource allocation, and thus enables the enhancement of the national economy's competitiveness.

The capital market in Poland is still underdeveloped compared to the capital markets of western European countries. The share of bank loans in financing corporate growth is significantly lower in Poland than in other more developed countries. The share of loans in corporate investment spending (combined with loans denominated in foreign currencies) amounts to 17% in Poland, whereas in developed countries it usually accounts for 70-80%. Similar proportions apply to loans used to finance current corporate operations. Additionally, the role of the stock exchange in attracting capital is inadequate. The Warsaw Stock Exchange (WSE) is characterized by significantly lower capitalization than that of western European exchanges. The relation of WSE capitalization to GDP amounts to approximately 16%. WSE liquidity is also low. It should be stressed, however, that among the stock exchanges of the EU's prospective members Poland's is the largest. Its equity market capitalization was almost

equal to the combined market value of the next three largest stock exchanges of the EU acceding countries (Budapest, Prague and Ljubljana exchanges).

As at December 31, 2002, the number of publicly traded companies stood at 264, that of WSE-quoted companies amounted 216, whereas that of CeTO-quoted companies was 21; there were 38 entities involved in brokerage services and they serviced 1,007 thousand investment accounts. WSE capitalisation stood at 110 bn zloty and the turnover was valued at 71.7 bn zloty; for the CeTO market, the figures were, respectively, 204 million zloty and - 626 million zloty (but the turnover on trading shares amounted to 97.3 million zloty).

The experience of EU Member States shows that the accession represents a major stimulatory impulse for the growth of economy, including the capital market. Poland is also presented with such an opportunity. The preparations for future integration were initiated as early as in 2002. They were reflected in the signing of a cross-membership and cross-access agreement with the first Pan-European Euronext NV stock exchange established in 2000 following the merger of Paris, Amsterdam and Brussels exchanges.

The agreement strengthens the co-operation in the partners' efforts to ensure direct cross-access to stock exchanges for WSE and Euronext members. Therefore, Polish brokerage houses will be free to conclude transaction on Euronext markets, while Euronext members will be able to trade Polish shares, on identical terms. Potential benefits resulting from the cross-membership and cross-access agreement are numerous. It can be expected that the agreement will encourage companies operating in our region of Europe to quote their shares on WSE. It will also reduce the risk of transferring trading sessions involving local companies to foreign trading floors. At the same time, it will be much easier for issuers to raise capital from Euronext investors. Finally, transactions involving shares from a number of European countries will provide a new source of income for stock exchange members.

During 2002, work was continued on the projects constituting tasks identified under the government program titled An outline of capital market growth strategy (details have been presented in The Pre-Accession Economic Program 2002).

Completed tasks include the development and adoption in 2002 by the WSE of the Corporate Governance Principles with respect to publicly listed companies (issuers have had to observe the Principles as of July 2003). The Principles define best practices in the area of the operation of listed companies and their governing bodies (management boards, supervisory boards, general shareholders' meetings), thus strengthening ownership supervision over public companies.

The list of tasks, whose execution was continued in 2002 includes also legislative work aimed at developing public equity market as a source of financing, enhancing its competitiveness and pursuing further integration with the EU. Major envisaged changes include ensuring higher investor security and improving supervision over capital market, introducing new solutions in the procedure for admitting securities into public trading (mutual recognition of prospectuses by EU member states), launching new trading instruments and platforms (alternative trading system and internal transactions), as well as expanding investment options for investment funds, launching new types of funds and implementing principles for mutual recognition of companies managing UCITS funds. The implementation of the above regulatory changes is scheduled for 2004. They are consistent with the work pursued under FSAP and RCAP on the directives concerning the capital market, namely on the Prospectus Directive, the draft Investment Services Directive, the draft Transparency Directive and the draft Take-over Bids Directive.

In September 2003, the Council of Ministers adopted the draft law amending the Law of August 21, 1997, on Public Trading of Securities. The new law will ultimately remove all doubts accompanying the actual degree of concordance of these regulations to the EU legislation. It is planned that the amended law will come into force not later than by May 1, 2004.

The draft amends and complements the existing law, bringing the scope and wording of individual regulations into line with:

- 1) the Directive of the Council EEC/298/89 of April 17, 1989, on coordination of the requirements for drawing up, scrutiny and distributing prospectuses to be published when transferable securities are offered to the public;
- 2) the Directive of the Council EEC/592/89 on the coordination of regulations on insider trading;
- 3) the Directive EC/34/2001 of the European Parliament and Council of May 28, 2001, on the admission of securities to official stock exchange listing and on the information to be published on the securities;
- 4) the Directive of the Council EEC/22/93 of May 10, 1993, on the investment services in the securities field.

The draft contains also provisions implementing the new Directive EC/6/2003 on insider dealing and market manipulation (Market Abuse).

In order to bring the law's provisions into line with the provisions governing the admission of securities for official public trading and on the information to be disclosed, the draft, among other things:

- a) contains provisions on the mutual recognition in the case of parallel offers;
- b) provides the issuer with a possibility to file a claim with the court against the entity operating an exchange for the admission of its securities to trading;
- c) contains provisions on the principles of co-operation with competent bodies of the member states;
- d) grants the Securities and Exchange Commission (SEC) additional powers regarding the financial information provided by issuers;
- e) introduces regulations governing the conduct of an information campaign;
- f) grants SEC the power to demand the suspension of trading in financial instruments admitted for public trading.

In order to bring the act's provisions into line with the provisions of the Market Abuse Directive, the draft, among other things:

- a) delivers a more explicit definition of price manipulation;
- b) strengthens the SEC's administrative supervision in the area of market abuse and restricted information;
- c) contains regulations on stabilization of security prices and purchase of its own shares by a public company;
- d) renders more explicit the regulations prohibiting the disclosure of restricted information,

- e) defines the scope of restricted information and exceptions in the application of the prohibition.

In order to bring the law's provisions into line with the provisions of the Investment Services Directive, the draft, among other things:

- a) extends the catalogue of brokerage activities,
- b) introduces a catalogue of financial instruments,
- c) distinguishes direct and indirect purchase of brokerage-house shares,
- d) renders more explicit the principles for carrying out brokerage activities within Poland, under the single European passport principle,
- e) introduces regulations governing conflicts of interests and relevant code of conduct.

Challenges facing the capital market include:

- incorporation of the WSE and the National Depository of Securities into EU structures,
- further development of the public equity market as a source of securing funding by companies,
- utilization of the potential of open pension funds for the development of the capital market,
- enhancement of the effectiveness of prosecution for offences committed on the public equity market.

INVESTMENT FUNDS

As at December 31, 2002, there were 19 investment fund societies operating in the market. They managed 124 funds with total net assets of PLN 22.5 bn.

At present, a draft Law on Investment Funds is under review at the Polish Lower House of Parliament (Sejm) which will replace the currently applicable Law of August 28, 1997, on Investment Funds. The draft new law has been drawn with regard to:

- 1) the necessity to bring the Polish legislation into line with the provisions of two new Directives EC/107/2001 and EC/108/2001 amending Directive EEC/611/85 on the coordination of Laws, regulations and administrative provisions regarding undertakings for collective investment into transferable securities (UCITS),
- 2) the necessity to improve the currently applicable regulations in the light of the changes taking place in the capital market and the experience related to the application of the Law on Investment Funds.

As far as the provisions on investment fund societies are concerned, the draft:

- a) provides a possibility for investment-fund societies to manage portfolios for private clients and provide advisory services,
- b) introduces new principles for determining the amount of the society's own capital,
- c) renders more explicit the principles for appointing a society's management board members,
- d) introduces regulations governing the establishment of their branches on the territory of EU member states by societies as well as the activity and establishment of branches on

the territory of Poland by foreign companies managing investment funds, under the principle of mutual recognition and supervision by the origin country.

With regard to open investment funds:

- a) the scope of permissible investments has been expanded to include money market instruments and bank deposits;
- b) the scope of possible uses of derivatives, including non-standardized derivatives by open funds has been expanded;
- c) the funds' investment possibilities covering units of other funds have been expanded. The establishment of funds on funds has been made possible;
- d) the investment limits of the funds whose investment policy is focused on reflecting the structure of the share or debt securities index have been expanded;
- e) the principle has been introduced that, for the purpose of applying investment limits, entities belonging to the same capital group should be treated as one entity;
- f) the provisions on the funds' code of conduct regarding limit violations have been brought into line with the directive.

The following items have also been incorporated:

- a) the principle of mutual recognition of prospectuses, on the basis of which the offering of units and investment certificates may be conducted;
- b) the provisions on information prospectuses and their abridged versions;
- c) the principles governing the sale of units by foreign investment funds with registered offices on the territory of EU member states;
- d) regulations governing the SEC's notification by investment funds of the changes to the content of a prospectus and its abridged version, and on the auditor's obligation to inform SEC of serious breaches in the society's operations identified during auditing financial statements.

Additionally, in order to improve the existing solutions, the draft, among other things:

- a) introduces new types of funds, e.g., securitisation fund;
- b) defines the principles for granting loans in securities by the fund;
- c) allows societies to delegate real estate management responsibilities to specialized entities;
- d) establishes principles for altering investment fund type;
- e) provides for the establishment of a chamber of investment funds.

INSURANCE SECTOR

Changes in the insurance sector originate from the implementation, in recent years, of new principles governing this market.

As at December 31, 2002, there were 74 insurance companies operating in Poland, including 72 local insurers and 2 head branches of foreign insurance firms. The Polish market continues to be characterized by high concentration. The gross premium share of the five largest life insurers amounted to 88.7%, whereas that of the five largest non-life insurers stood at 82%. In

the last few years, the share of the State Treasury has been shrinking in the share capital of insurance companies (3.5% at year-end 2002). This trend, however, should be attributed to the accelerated process of raising share capital by private insurance companies rather than to the progressing privatization. On the other hand, the share of foreign investment in the insurance sector is growing steadily. At year-end 2002, the share of foreign capital in total share capital of insurance companies amounted to 71.85%, representing PLN 2.97 bn (of which German capital accounted for PLN 1.21bn).

On May 22, 2003, a package of insurance-related Laws was passed. They will come into force on January 1, 2004³¹. This package includes:

- the Law on Insurance Activities (Journal of Laws No. 124, item 1151);
- the Act on Compulsory Insurance, Insurance Guarantee Fund and the Polish the Polish Motor Insurers Bureau (Journal of Laws No. 124, item 1152),
- the Act on Insurance and Pension Funds Supervision, and the Ombudsman for the Insured (Journal of Laws No. 124, item 1153),
- the Act on Insurance Mediation (Journal of Laws No. 124, item 1154)

The aim of the newly passed legislation is to bring the national legal framework on insurance activities into line with the EU requirements, rendering more explicit and detailed the principles for conducting insurance activities and ensuring supervision over it to enhance the security of the insured and insurance transactions.

Following the implementation of the above-mentioned provisions, the supervisory powers of KNUiFE (Insurance and Pension Funds Supervisory Commission) will be reinforced. Among other things, this body will take over from the Ministry of Finance the licensing responsibilities and, additionally, will acquire the right to exchange information with supervisory bodies of foreign countries.

The following challenges are facing the insurance sector:

- intense competition due to the consolidation of the insurance sector;
- necessity to improve the quality of insurance services and to expand the product offer in the context of Poland's accession to the EU;
- necessity to meet new requirements regarding the own funds level and coverage of technical provisions, following the implementation of the elements of consolidated supervision over insurance groups and financial conglomerates.

PENSION FUNDS MARKET

Open Pension Funds (OFE) constitute an element of central government finance. Their primary purpose is to invest a portion of pension insurance premiums in the capital market, while taking into consideration investment limits imposed by law and resulting from the financial market's development stage. Under the reformed pension system, responsibility for the management of a portion of public funds has been transferred from the state law institution (the Social Insurance Institution - ZUS) to a private law entity (general pension society - PTE).

³¹ The regulations shall be apply on day of Polish accession into the EU

According to the data available as at June 30, 2003, there were 16 open pension funds operating in Poland. A clear trend to reduce the number of the entities operating in this market by means of acquisitions and takeovers could be observed. This phenomenon can be explained by the presence in the market of PTEs too weak to generate adequate returns.

The structure of the market of open pension funds is characterized by a significant degree of concentration. The four largest open pension funds manage over 73% of total net assets. However, there are also pension funds with relatively low number of members and amount of assets. These constitute a target for potential takeovers.

Net assets of OFE amounted to 41.6 bn zloty as at September 30, 2003, up from 31.5bn zloty at year-end 2002. According to the forecasts of the Insurance and Pension Funds Supervisory Commission, by 2005 OFE net asset value will reach approximately 80bn zloty, to subsequently exceed 160bn zloty by 2010.

First disbursements of old-age benefits are projected for the year 2009. By that time, laws should have been passed governing the disbursement of old-age benefits from the capital part of the pension system. In the initial period, the scale of disbursements will be small and the growth rate of fund assets should not decrease substantially. The system will reach its maturity around the year 2034 when all new retirees will be covered by the new structure.

On August 27, 2003, the Sejm adopted the law amending the Law on Organization and Operation of Pension Funds (Journal of Laws No. 170, item 1651). The amendment forces PTEs to lower their handling fees. It also contains provisions regarding changes in investment limits and the extended number of types of financial instruments in which funds will be allowed to invest their assets.

On October 1, 2003, the Law on the takeover by the State Treasury of the liabilities of the Social Insurance Institution from contributions not transferred to open pension funds, of July 23, 2003, has come into force (Journal of Laws No. 149, item 1450). The above legal law settles the issue of delays in transferring contributions from ZUS to OFE through the repayment of such arrears with floating interest-rate government bonds.

AMENDMENTS TO ACCOUNTING LEGISLATION³²

Since 2000 the Polish accounting legislation has been brought into line with the requirements of the European Union and the International Accounting Standards. The purpose of these changes was to impart more transparency and reliability to the banks' financial reporting, to improve access to the information in the capital market and, through the implementation of reporting standards consistent with those applicable in the EU, to facilitate comparability on an international level and to enhance the security of financial institutions. In the accounting area, Poland has taken a major step towards creating encouraging environment for the operation of a common European financial system.

The introduced amendments included:

- Layout and principles of drawing up financial statements

Changes made were disciplinary in nature and consisted primarily in introducing terminology consistent with that applied throughout the European Union and IAS. The use of a uniform standard for drawing up financial statements facilitates international comparisons of business entities.

- Regulatory framework for asset and liabilities valuation

New principles (categories) have been introduced for classifying financial instruments as well as new valuation methods. These amendments help better reflect the current value of the items of financial statements. According to the relevant Regulation of the European Parliament and Council³³ all publicly listed companies will be required to apply IAS as of January 1, 2005. Through the introduction in the years 2000-2001 of the regulations consistent, to a large extent, with IAS, Poland is far ahead of UE member states in this regard. At present, discussions are under way within the EU on the justifiability of strict compliance with IAS principles 32 and 39 as early as in 2005.³⁴

- Financial statement consolidation principles

The thematic scope and thresholds have been determined, for which consolidated financial statements of capital groups should be generated. Such statement is net of the financial effects of intra-group transactions and, as such, helps obtain the actual picture of the financial condition of a capital group. It also makes it easier to identify potential risk and manage it.

Challenges are as follows:

- Improved quality (method enhancement) of risk management;

³² The Laws introducing changes in regulations on accountancy: Regulation No 1606/2002 of the European Parliament and the Council of July 19, 2002 on the application of international accountancy standards; Regulation of Minister of Finance of December 10, 2001 on specific accounting principles for banks (the Journal of Laws of 2001, No 149, item 1673); Regulation of Minister of Finance of December 12, 2001 on rules of preparation of consolidated financial statements for banks and financial holdings (the Journal of Laws of 2001, No 152, item 1728); Regulation of Minister of Finance of December 12, 2001 on detailed rules of recognition, methods of measurement, scope of disclosure and manner of presentation of financial instruments (the Journal of Laws of 2001, No 149, item 1674); the Law of September 29, 1994 on Accounting (the Journal of Laws of 2002, No 76, item 694)

³³ Regulation of the European Parliament and Council no. 1606/2002 of July 19, 2002, on the application of International Accounting Standards.

³⁴ IAS 32 *Financial Instruments: Disclosure and Presentation*; IAS 39 *Financial Instruments: Recognition and Valuation*.

- Full implementation of the already regulated changes;
- Further harmonization of legal areas with IAS and international practices (laws).

SUMMARY

Polish product and service market and Polish financial market in the last decade were under the great changes. The aim of those changes was the creation of opened, knowledge-based, economy with the high level of innovativeness and competitiveness. The deep restructuring and privatization as well as changes liberating the flow in the sector of goods, services, capital and human resources were the main tools for achieving this goal.

Beside so significant changes lots of task are still to be performed. These are mainly:

- The acceleration of the GDP growth mainly by the development of SME sector what is also to increase the employment;
- The promotion of entrepreneurship by facilitating the access to capital for firms, diminishing the biurocratic burden in administrative procedures and ensuring the clearness and stability in the law system for the sector;
- the further restructuring and privatization of the economy, diminishing public aid to minimum as well as ensuring the competitiveness in the areas which are to stay under control of the State;
- the increase in the level of openness and competitiveness of the Polish economy on the international market what is to be achieved by the increase in innovation of Polish products and the raise of skills of work force by promoting life-long learning;
- ensuring the full freedom in the flow of goods, services, capita and human resources.

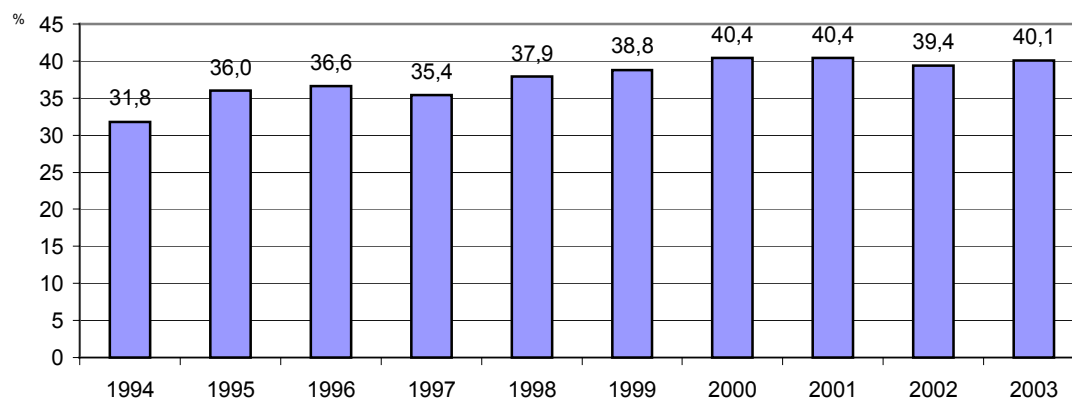
Taking into regard such goals in the nearest future next legislative changes and implementation of economic tools aiming at their realization.

Table 1 Main economic indicators between 2001-2006

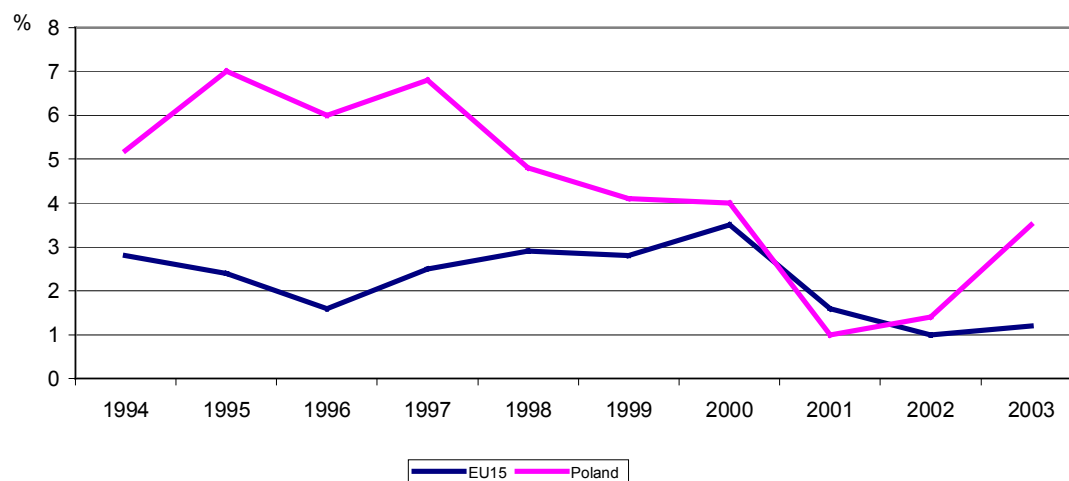
	Jednostka	2001	2002	2003 budget law	2003 forecast	2004 forecast	2005 forecast	2006 forecast
Real sector								
Real GDP	%	101,0	101,4	103,5	103,5	105,0	105,0	105,6
Export	%	103,1	104,8	108,5	108,5	108,7	109,0	109,1
Import	%	94,7	102,6	107,8	106,4	108,5	109,7	109,9
Total domestic demand	%	98,3	100,8	103,4	102,9	105,0	105,3	106,0
Consumption	%	101,7	102,8	102,8	102,7	103,3	103,8	104,4
- individual households	%	102	103,3	103,2	103,0	103,8	104,3	105,0
- non-households	%	100,6	100,9	101,4	101,8	101,6	101,9	102,1
Gross fixed capital formation	%	87,4	93,2	105,8	104,1	112,0	111,3	111,7
- investment	%	91,2	94,2	105,6	102,5	112,2	111,5	111,9
GDP at current prices	PLN bn	750,8	771,1	784,1	805,1	861,5	926,1	1002,8
Prices								
Consumer price index (average)	%	105,5	101,9	102,3	100,7	102,0	102,8	102,9
Producer price index (average)	%	101,6	101,0	102,0	102	101,7	102,2	102,3
GDP deflator	%	104,2	101,4	102,1	100,8	102,0	102,4	102,5
Wages and salaries								
Average gross wage and salary. of which:	PLN	2045	2133	2195	2201	2290	2400	2529
- enterprise sector	PLN	2203	2277	2362	2331	2416	2523	2650
Average retirement pay and pension								
- from non-agricultural social security system	PLN	972	1039	1 088	1091	1126	1166	1218
- individual farmers	PLN	664	700	724	726	740	758	782
Labour market								
Average paid employment	thous.	9050	8778	8909	8643	8733	8920	9123
- enterprise sector	thous.	5138	4912	-	4750	4776	4871	4957
Average number of retirees and pensioners	thous.	9311	9237	9181	9205	9163	9114	9066
- from non-agricultural social security system	thous.	7469	7439	7469	7450	7449	7440	7431
- individual farmers thou.	thous.	1842	1798	1712	1755	1714	1674	1635
Registered unemployment (end of period)	thous.	3115	3217	3193-3297	3280	3207	3002	2765
Registered unemployment rate (end of period)	%	17,5	18,1	17,7-18,3	18,4	17,8	16,5	15,1
Exchange rate								
PLN/USD (average)	PLN	4,09	4,08	-	3,84	3,78	4	4,2
PLN/EUR (average)	PLN	3,67	3,86	-	4,31	4,25	4,2	4,2
USD/EUR (average)	USD	0,9	0,95	-	1,12	1,12	1,05	1
Interest rates								
Minimum yield open market operations (nominal)	%	15,9	8,8	7,2	5,6	3,7	3,8	4
Balance of payments								
Current account	USD mln	-7166	-6700	-8741	-6500	-8400	-9640	-12070
Trade balance	USD mln	-11675	-10352	-11620	-10400	-11900	-12740	-14550
- goods: exports	USD mln	30275	32945	33720	40100	43900	48710	54150
- goods: imports	USD mln	41950	43297	45340	51500	55800	61450	68700
- unclassified transactions on current account: net	USD mln	4395	4065	3200	5500	4700	3800	3500
Capital and financial account	USD mln	2980	6622	9540	7500	8900	10000	12450
- direct investment: net	USD mln	6928	3789	5900	4300	5150	6250	8300
Ratio:								
C/A to GDP	%	-3,9	-3,5	-	-3	-3,7	-4,2	-5,1
trade balance to GDP	%	-6,4	-5,5	-	-5	-5	-5,5	-6,1

Źródło: Uzasadnienie do ustawy budżetowej na 2004 r.

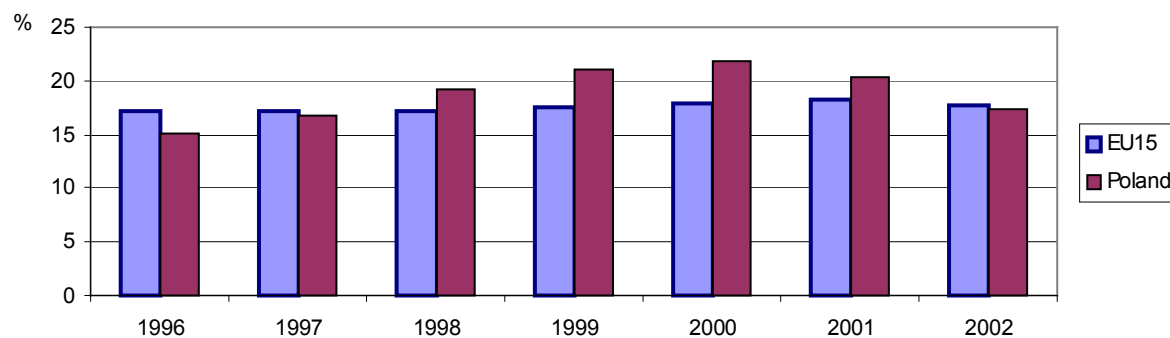
GDP per capita in Poland (per cent of EU average one)



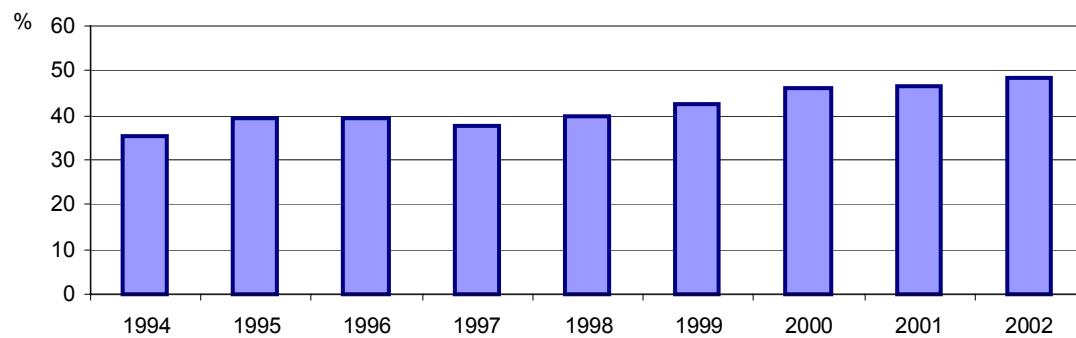
GDP growth in Poland and in UE in the years 1994-2003



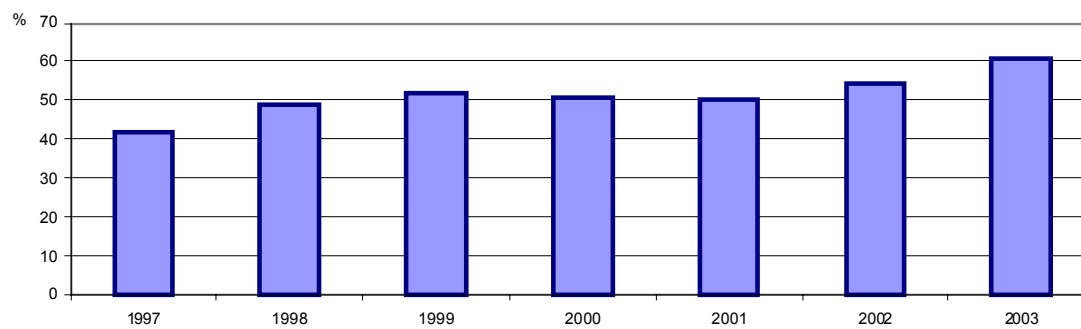
Business investment - Gross fixed capital formation by the private sector as a percentage of GDP



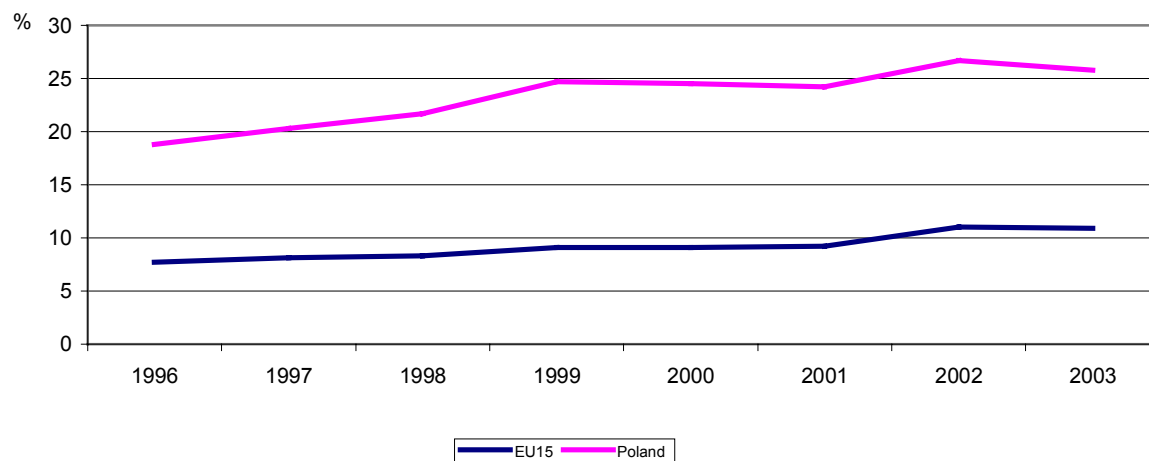
**Labour productivity - GDP in PPS per person employed relative to EU-15
(EU-15=100)**



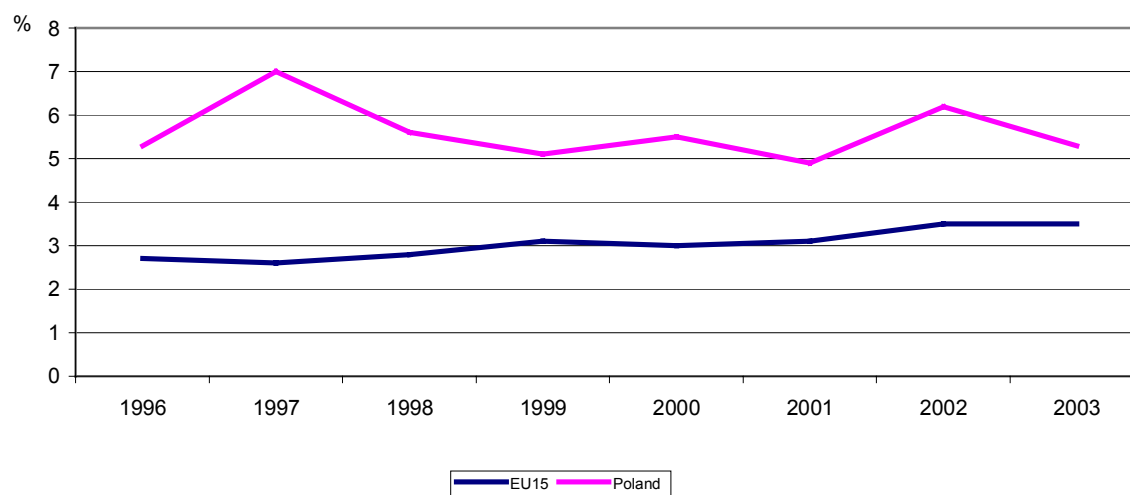
**Comparative price levels of final consumption by private households including
indirect taxes (EU-15=100)**



Average value of imports and exports of goods divided by GDP



Average value of imports and exports of services divided by GDP



Trade integration of FDI - Average value of inward and outward Foreign Direct Investment divided by GDP

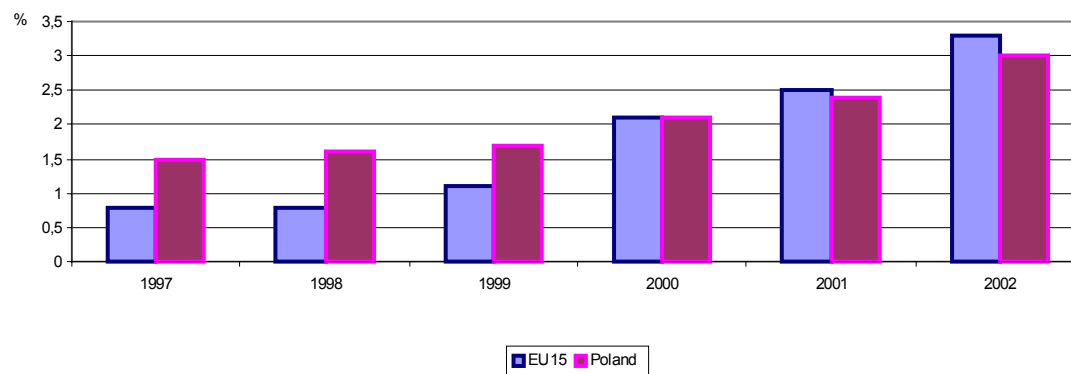


Table 2 Hard Coal Sector: Effects of the Restructuring Process

	1990	1998	2000	2001	2002
Employment (thous.)	391	208	155	146	140.7
Production (mln t)	147	116	102	102,8	102.1
Productivity (t/per capita/year)	390	504	627	698	723
Export (mln t)	28	28	23	23	23
Domestic demand	120	90	80	78	76,4
Price (average per t)		121	131	144	142.5
Costs (per t)		144	130	137.4	138.2
Profits/Losses		-4.276	-1.763	+182.1	-608
Liabilities		16,5	22	21,49	22,8
Expenses for restructuring purposes (PLN mln)		1,008	1,650	1,267	0,936

Horizontal state aid (per cent of GDP)

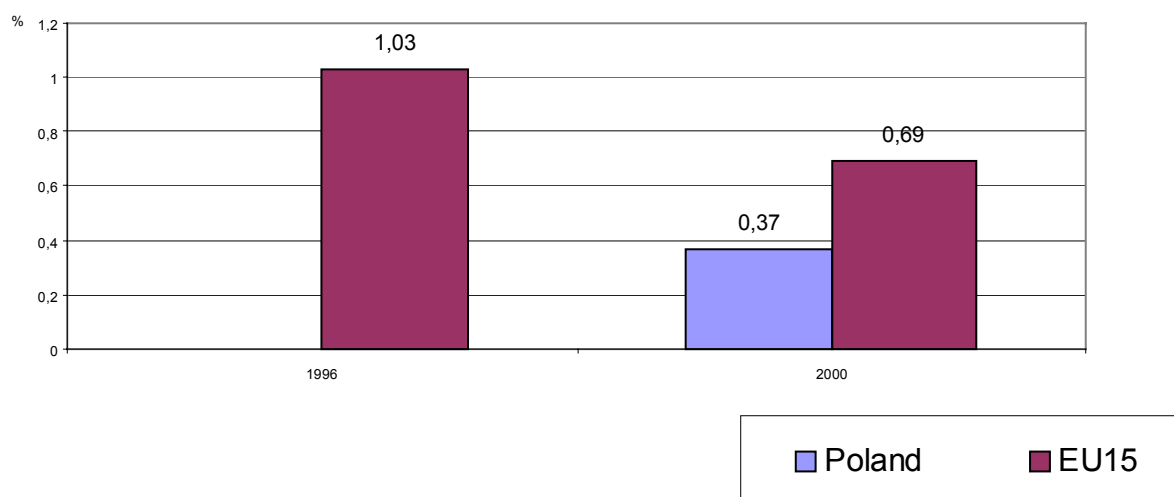


Table 3 State aid in 2002 r.

	Amount of aid in zł million	Amount of aid in EUR million ³⁵	% share
TOTAL, including:	10.277,6	2.665,6	100,0
HORIZONTAL AID, including:	3.450,7	895,0	33,6
♦ research and development	136,7	35,5	1,3
♦ environmental protection	142,2	36,9	1,4
♦ SMEs	136,6	35,4	1,3
♦ energy saving	7,8	2,0	0,1
♦ maintenance of employment level or creation of new jobs	228,2	59,2	2,2
♦ training	368,5	95,6	3,6
♦ restructuring	2.091,3	542,4	20,3
♦ rescue aid	300,6	78,0	2,9
♦ development of technical infrastructure	10,4	2,7	0,1
♦ other	28,4	7,4	0,3
SECTORAL AID including:	1.835,4	476,0	17,9
♦ Iron and steel sector	5,3	1,4	0,1
♦ Shipbuilding sector	101,8	26,4	1,0
♦ Coal mining sector	1.712,0	444,0	16,7
♦ Synthetic fibre sector	0,1	0,0	0,0
♦ Motor sector	15,2	3,9	0,1
♦ Maritime transport sector	0,1	0,0	0,0
REGIONAL AID	469,6	121,8	4,6
♦ aid intended to support new investment or create new jobs related to an investment project	409,9	106,3	4,0
♦ aid to cover current operating costs	59,8	15,5	0,6
AGRICULTURE	1.766,9	458,3	17,2
OTHER OBJECTIVES	2.706,0	701,8	26,3

³⁵ At the 2002 average exchange rate, EUR 1 = PLN 3.8557.

Tabela 4 Computer assets in schools

Urban/Rural areas	<i>Indicator</i>							
	I		II		III		IV	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Urban areas	41.93	40.87	39.27	32.46	3	3	52.55	43.18
Urban areas (5 thous. inhabitants)	52.20	49.64	37.49	30.98	3	3	46.36	38.37
Rural areas	48.44	55.93	29.47	22.49	3	4	43.78	35.04
Total	44.86	46.99	36.01	28.96	3	3	49.63	40.47

Tabela 5 Computer assets in schools by level ⁴

Level of education	<i>Indicator</i>							
	I		II		III		IV	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Primary education	51.81	60.83	42.40	32.03	2	3	75.27	58.07
Lower secondary education (gymnasia)	71.43	74.24	34.71	27.79	3	4	36.61	31.69
General secondary education	51.76	44.53	30.20	25.65	3	4	37.80	30.83
Vocational secondary education	21.54	19.02	31.37	27.28	3	4	45.00	37.00

Indicators:

- I. a percentage share of schools having computer laboratory in relation to a total number of schools
- II. a number of pupils per 1 computer
- III. a number of computers per 100 pupils
- IV. a number of pupils per 1 computer with Internet access

⁴ data of CSO